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Proceedings. v. 3, 1945

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1945

(ROYAL COMMISSION  
ON  
CO-OPERATIVES)

1945

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ROYAL COMMISSION ON COOPERATIVES

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Edmonton, Alberta, January 25, 26 & 27, 1945

V O L U M E III

(Pages 765 - 1085)

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ROYAL COMMISSION ON COOPERATIVES

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The Commission appointed to inquire into the present position of cooperatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Edmonton, Alberta, on Thursday, January 25, 1945, with sittings continuing on January 26 and 27.

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PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL,	Chairman
B. N. ARNASON )	
G. A. ELLIOTT )	
J. M. NADEAU )	Commissioners
J. J. VAUGHAN	
Eugene T. Parker, K.C.	Counsel
Major H. D. Woods )	Associate
J.A. Chapdelaine )	Registrars
Colonel G. W. Ross	Executive Secretary

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APPEARANCES:

W. B. Francis	Ten Cooperative Associations
G. S. Thorvaldson, K.C.	Income Tax Payers Association
A. Leslie Ham	Joint Stock Insurers - fire, automobile & Casualty business Independent Dairies
W. Howard, K.C.	Private Grain Interests
R. H. Milliken, K.C.	Saskatchewan Cooperatives
J.V.H. Milvain,	Eight Alberta Cooperatives
James A. Ross	General Counsel, Alberta Farmers Union
Gerald O'Connor, K.C.	Independent Dairies

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Morning Session

Edmonton, Alberta  
Thursday, January 25, 1945

The Commission met at 10.30 a.m., Mr. Justice MacDougall presiding.

THE CHAIRMAN: Following our usual procedure, I must inflict upon you again the terms of reference under which this Commission is operating.

The present Commission has been constituted under and in virtue of order in council No. 8725, dated November 16th, 1944, for the purpose of inquiring into --

(a) the present position of cooperatives in the matter of the application thereto of the Income Tax Act and the Excess Profits Tax Act, 1940, and

(b) the organization and business methods and operations of the said cooperatives as well as any other matters relevant to the question of the application of income and profits tax measures thereto, and

(c) the comparative position in relation to taxation under the said Acts of persons engaged in any line of business in direct competition with cooperatives, and reporting in so far as the same can conveniently be done, all facts which appear to them to be pertinent for determining what would, in the public interest, constitute a just, fair and equitable basis for the application of the Income War Tax Act and the Excess Profits Tax Act, 1940 to cooperatives and to persons other than cooperatives in respect of methods of doing business analogous to cooperative methods, such as the making of payments commonly called patronage dividends and to make such recommendations for the amendment of existing laws as they consider to be justified in the public interest.

Adherence to the foregoing terms of reference is





essential to the prompt and efficient completion of the labours of the Commission, and I venture to hope that counsel appearing before us will be guided by this observation.

I need hardly point out that it is no part of the mission with which we are entrusted to try any particular case or to make a ruling in regard to the tax liability of any person or organization. We shall endeavour merely to find the facts upon which an intelligent report may be delivered, leaving to other authority, as, if and when it is deemed advisable, to implement such recommendations as we may consider appropriate.

I take great pleasure in introducing to you my colleagues: to my right is Mr. B. W. Arnason of Regina, Saskatchewan; to my left is Mr. G. A. Elliott of Edmonton, Alberta; on the extreme left is Mr. J. M. Nadeau of Montreal, and at the right is Mr. J. J. Vaughan, of Toronto. Mr. E. T. Parker, K.C., of Halifax, is counsel to the Commission and will, in a moment, be prepared to discuss with appearers or their counsel all details relating to the presentation of their submission. It is hoped thus to avoid redundancy in the hearing of cases and to facilitate the speedy disposal of the work before us. The Registrar of the Commission, Major H. D. Woods, of Calgary, will have charge of all the records and the arrangements of the hearings.

The briefs submitted have been docketed in the order of their receipt by the Commission and will, as far as convenient, be heard in that sequence. There have been filed for presentation in Edmonton, a number of briefs. In the short time at our disposal we must endeavour to proceed as expeditiously as possible. In the event of unfinished business, we shall





be compelled to refer such cases to a later hearing in Ottawa in March, when the Commission has completed its itinerary. We are now prepared to proceed with the business in hand and I should be glad to have counsel declare their appearances and to make any observations which they may see fit to make.

I think now that possibly it would be advisable, as we have done at other points, for Commission Counsel to confer with Counsel present on the order of proceeding. Shall we take a short recess for that purpose, Mr. Parker?

MR. PARKER: I think that is advisable, Mr. Chairman.

(After a brief recess)

MR. PARKER: I have conferred with Counsel representing the various persons who have filed briefs, and for the most part we have arranged a schedule on which, I think, we can proceed. There are two groups and the pools and apparently each interest would more or less like to go last. Obviously however that cannot be done.

THE CHAIRMAN: In case of doubt or dispute the order in which the briefs were received would govern. That is the only rule I can think of. That was the understanding.

MR. PARKER: That being understood, we can get on and the situation will iron itself out. The first one I should like to submit is the presentation by the Alberta Farmers Union.

MR. O'CONNOR: I am appearing on behalf of the independent dairies, with Mr. Winspear and others, and we have not been able to agree upon the order of presentation of the briefs. One of the reasons is that we have not been able to get the financial statements of the Northern Alberta Dairy Pool. We have been endeavouring to get them. For a period of three



years this matter has been receiving attention. The whole question came before the taxation department and submissions were made. To-day we are in the position where we have to go on first. That is all right, but these financial statements have been filed with the Commission and we would like to have our accountants examine them here so as to assist us when we come to examine the witnesses on their briefs. There are a number of points in which we are extremely interested which materially affect our position and theirs as well, and my application is that our accountants be permitted to examine those statements.

THE CHAIRMAN: Can there be objection to that?

MR. MILVAIN: I appear for the two cooperative dairy pools that are on the list. The situation is this. We have filed with the Commission the required number of copies. I understand that these statements are open to examination by the Commission auditors, and the law of Alberta is such that cooperatives are not required to file their financial statements with the Registrar of Companies. They are filed with the supervisor of cooperatives for the information of the supervisor alone. They are not public documents. I rest entirely in the hands of the Commission in that regard.

THE CHAIRMAN: Your statements are before the Commission now?

MR. MILVAIN: Yes.

THE CHAIRMAN: And when the case is heard, before we leave Edmonton, they will be published.

MR. MILVAIN: No doubt.

THE CHAIRMAN: I can see no objection to your adversary -- if I may use that term -- having access to these documents now.





MR. MILVAIN: I am in this position. I understand that the documents are now the property of the Commission, and if the Commission sees fit for Mr. O'Connor to use them I cannot object.

THE CHAIRMAN: You will not voluntarily consent, but under order from the Commission you will comply?

MR. MILVAIN: I am not in a position where I can consent.

THE CHAIRMAN: I think you had better give communication of these statements to your opponents.

MR. MILVAIN: Very good, sir.

THE CHAIRMAN: Who opens the case, by the way?

MR. O'CONNOR: In this matter, we will.

THE CHAIRMAN: Then these statements should be available to you at that moment.

MR. O'CONNOR: The only thing is that we want them now so that we can work at them until the time arrives for us to present our briefs.

THE CHAIRMAN: The case has not been called yet.

MR. O'CONNOR: I don't understand why they don't want to give them.

THE CHAIRMAN: I do not either. Mr. Milvain wants an order that they be made available. That order is given at the moment the case opens. That is the best I can do.

Statement of Mr. James A. Ross,  
General Counsel, Alberta Farmers  
Union.

MR. ROSS: Mr. Chairman, there are certain representations which I wish to make.

MR. PARKER: There are one or two preliminaries, Mr. Ross. Are you speaking as one who is giving evidence or do you simply wish to make certain representations?





MR. ROSS: I am making representations by direction of the convention of Alberta Farmers Union presently sitting in Edmonton, and I am accompanied by one of the directors, who is a representative.

The CHAIRMAN: Do you propose to put him in the box?

MR. ROSS: No, sir. It is not a question of evidence at all. We simply wish to have our representations before you for your general consideration, and not otherwise.

THE CHAIRMAN: Not otherwise?

MR. ROSS: Messrs. Commissioners, my colleague, a member of the directorate of the Alberta Farmers Union, and myself appear before this Royal Commission and desire to present to you the views of twenty-two thousand organized farmers whose representatives are presently sitting in Edmonton with delegates of six hundred. We are not concerned with direction (a) or paragraph (a), as it appears in the terms of reference which you, sir, have read. Our submissions come more or less under (b) and (c), particularly under (c), dealing with the comparative position, in relation to taxation under the Acts of persons engaged in any line of business.

My clients are not directly concerned as a body in the operation of any cooperative. They are organized for the general purposes of such a farmers union, securing arrangements about marketing, and so on. I am directed at the outset to take the strongest exception to any expression such as "consumer dividends" or "profits" or kindred phrases which would indicate or create an impression of any sort that the accumulated savings of the cooperatives in the conduct of their business were anything else than pure savings, the property of the individual members of the cooperative through the sales of whose produce, and from whose exertions, such



savings were derived.

Now that is the genesis of our submission. So far as cooperatives are concerned, they are perfectly well able to deal with these questions which may arise before this Royal Commission which is considering the question of income tax and studying its incidence in all its ramifications. With that we are not concerned. We confine ourselves solely and entirely to this proposition: that these accumulated so-called profits are in reality the aggregate savings of the aggregate number of farmers and others who, whether it be dairy pools or wheat pools, have contributed of their produce to the setting up of this organization.

Now, sir, there is one matter which we have observed heretofore has not been dealt with, more particularly in your deliberations in British Columbia. Indeed, it does not affect them at all. It is this -- and I think that this matter will be considered by your commission in order to present to the government a picture of the relative circumstances which are the generating factor in the setting up of cooperatives in western Canada. When I speak of western Canada I mean west of the Great Lakes.

We are not concerned, and we are not properly able to deal, with any economic incidence of taxation as it refers to the territory east of the Great Lakes; but we are indubitably concerned with this economic incidence as it affects the farming population lying to the west. We have made our brief purposely short and have confined it to that word savings, but in that connection, sir, I refer you, Mr. Justice MacDougall, to the decision of the Saskatchewan courts -- I think it was this last week and has not been reported yet -- dealing with this question of profits, in which an individual farmer sued one of the pools in Saskatchewan in connection





with reserves.

THE CHAIRMAN: Are you referring to Mr. Justice Bigelow's decision?

MR. ROSS: Yes, sir. The court declared he was entitled to it. It seems to me, while I have not the benefit of that decision here, and after scanning the newspaper report, that it confirms our position that these profits, these accumulated savings, by that decision as well as by the application of the principles of ordinary ethics and common sense, are the individual properties, the several properties, of the individual supporters of these pools.

That being so, sir, I now come to the final matter. I told you I would not be long. I am afraid it is possible that a number of you may not be aware of the grave burdens which rest on western farming, and particularly so in the province of Alberta, burdens which have not been consented to and approved by that population; burdens which have been imposed, not by any particular federal government but by a long series of federal administrations which have existed since Confederation was set up; in other words, since the western railway position was created under the Canadian Pacific railway.

I need not go into the question of the alienation of western lands; that is all a matter of record. You will find all these particulars set out in the case for Alberta, in the report prepared for the Sirois Commission by the province. You will find that the matter to which I am about to refer is more particularly, concisely and powerfully dealt with in the submission prepared by the Edmonton Chamber of Commerce and submitted also to the Sirois Commission.

We take our stand on those figures of the Edmonton





Chamber of Commerce and the statistics provided in the case for Alberta as prepared by the provincial government.

Cooperatives have been generated in Alberta largely because of the burdens to which agriculture was submitted by reason of the excessive freight rates; and while it is rather difficult to dovetail that particular situation into this question of income tax, still it is equally hard to deny the fact that because of the onerous burden of freight rates which has been inflicted upon this province by the railways, with the consent of successive federal governments, the farmers themselves have been compelled to organize, to pare here, to cut corners there, to try to save expenses and to avoid duplications, to eliminate middlemen's profits -- all in an attempt to unburden themselves to some extent of the heavy load to which they were subjected.

May I sum it up in this way, sir. Railway rates which are supposed by the unthinking to benefit the province of Alberta are in truth and in fact an onerous, irresponsible burden inflicted upon us. Consider for a moment shipping from Montreal to Edmonton compared to shipping from Montreal to Vancouver. The burden of freight rates, roughly speaking, is from two to two and a half times more for the shorter distance than for the through journey to Vancouver over the mountains. In other words, if a carload of stuff is coming through here and a portion of it is taken off at Edmonton, the rest being sent to Vancouver, we pay two and a half times more for the stuff taken off at Edmonton than is paid for the freight that continues on the whole way to Vancouver.

The same trouble existed in the United States, in the middle central states, and it was settled by the famous Spokane decision, with which, Mr. Chairman and gentlemen,



you may come in contact in your progress across the prairies.

To sum it up, it amounts to this: that where there is a fixed rate for freight on a prolonged traffic line leading to the coast, the freight to intermediate stations on that route must bear a proportionate relevancy to the freight charged for the entire distance.

THE CHAIRMAN: I do not want to interrupt you, Mr. Ross, but will you relate this to the terms of reference? We are bound by our terms of reference. Your argument now is to show the necessity for cooperation?

MR. ROSS: Yes, sir.

THE CHAIRMAN: We are not unmindful of that, but we are dealing with the question of taxation.

MR. ROSS: Yes; but because of that the farmers have organized. We claim that they have had to organize because of these other considerations to which I have referred and which I will not further deal with; and we claim, further, that the savings which the farmers have been able to effect are in truth not the taxable profits of the various cooperatives but the savings or income of the individual farmers who compose any particular cooperative which may be under discussion.

We object to the taxation of these savings twice over. We object to the taxation of the savings of John Jones in the hands of the wheat pool, because when it comes into the hands of John Jones again it is liable to his individual income tax. But it never at any time was other than the income of John Jones. That is the position we take, and we urge therefore, in the strongest words possible, upon this Commission, that because of these matters, and because of the incidence of the freight rates to which I have referred,





our farmers, organized and unorganized, have been compelled to set up these cooperatives. We complain and strongly protest against further taxation upon the cooperatives when these aggregate savings can be reached by ordinary income tax methods in the hands of ordinary private individuals who happen to be subscribers for the time being to the general cooperative.

My lord and gentlemen, if I addressed you for any longer period I could not say more than I have said or express it more plainly. You realize what our contention is, and when I say that I appear for twenty-two thousand organized farmers I wish to add that my colleague and I have been expressly directed by the sitting convention, through its directorate, to come here and present the considered opinion of that body to this board. That opinion is this. They would regard it as a breach of faith on the part of the Federal government, they would regard it as double taxation by the Treasury branch of that government, however it may arise, if their incomes were to be twice taxed under the guise of the right or the alleged right to tax the accumulated savings of co-operatives.

I would ask you, gentlemen, when you return to Ottawa to examine the incidence of the freight rate in so far as it affects the province of Alberta and to take that into consideration as the reason for the existence of the co-operatives which have been set up by the farmers under compulsion and in self-protection.

For that reason, sir, I have been directed to make these submissions to this Royal Commission and, on behalf of the Alberta Farmers Union, we respectfully ask you to take this presentation into your serious consideration and, when the time comes, to make such recommendations as may appear



necessary in the premises. My colleague has told me he does not wish to address the Commission. I have discussed these matters briefly and it is now for you gentlemen to make up your minds on the question. I have no doubt you will do so at a later stage. I do not wish to occupy any further time, but our submissions are made in all seriousness and in perfect sincerity.

THE CHAIRMAN: We thank you, Mr. Ross, and will take the matter into consideration.

MR. PARKER: I suggest that we proceed now with the brief filed by the Edmonton Chamber of Commerce. Mr. James Walker the president, and Mr. F. G. Winspear are here.

Statement of Mr. James Walker,  
Edmonton Chamber of Commerce.

MR. WALKER: Mr. Chairman and honourable members of the Commission, as president of the Edmonton Chamber of Commerce I would like to express on behalf of its members their appreciation of the opportunity to appear here to-day for the purpose of making their representations. The brief to be submitted, which I may say represents the viewpoint of its executive council, will be presented by Mr. Winspear, who is chairman of the taxation committee. I will ask him to present the brief.

MR. WINSPEAR: Before taking the oath, may I say that what is herein stated does not necessarily represent my views. They are the views of the Edmonton Chamber of Commerce.

Mr. F. G. Winspear,

Chairman, Taxation Committee,  
Edmonton, Alberta, having been  
duly sworn testified as follows:

MR. PARKER: Perhaps you will read the brief now.

WITNESS: The submission to the Royal Commission on





Cooperatives by the Edmonton Chamber of Commerce reads:

"Brief for Submission to the Royal Commission on  
Cooperatives by the Edmonton Chamber of Commerce

"1. Introduction

"The Edmonton Chamber of Commerce has a membership which includes business, professional men and agriculturists. It is committed to the advancement of business, professional and agricultural interests, particularly in Edmonton, but also in Alberta and Canada. The Chamber, through its membership, committees and its secretarial staff has been able to obtain an intimate knowledge of the problems facing business in Northern Alberta and elsewhere. It is not partisan in its outlook, and it does not conceive it to be its duty to advance the interests of one particular section of business as compared with another. Its membership is open, and it numbers therein, individuals representing both private corporations and co-operatives, and it makes this submission with a due sense of its responsibilities not only to its membership, but to business generally throughout Alberta and throughout Canada.

"2. Immunity of Mutual and Governmental Enterprises

"During this present period of high levels of taxation, restrictive governmental controls and because of the necessity of preparing reconstruction plans now to meet the post-war period, the Edmonton Chamber of Commerce has become concerned with the increasing number of tax-free businesses and properties. Certain governmental enterprises enjoy monopolies, others operate in competition with private enterprise, but enjoy immunity from taxation. Mutual associations enjoying immunity of taxation operate in competition with private enterprise which is subject to onerous tax burdens. In the opinion of the Chamber this situation not only places a severe



burden on the individual entrepreneur who does not enjoy such immunity, but also creates difficulties in a division of governmental income between municipal, provincial and federal jurisdictions. The Chamber recommends that concerns owned mutually by the members, or controlled governmentally, should be subject to all taxes imposed on private business including specifically, income and excess profits taxes.

"3. Cooperatives and Subsidies

"The Edmonton Chamber of Commerce is conscious of the important role which cooperatives have taken in furthering and developing the economy of Alberta. It has been submitted that producer cooperatives have tended to narrow the margin of profit of the distributor and thereby to return a higher price to the producer; and also that consumer cooperatives have lowered the sales price to their member patrons. It has also been submitted that cooperatives could not have performed these beneficial social functions unless they had been granted governmental support and subsidy. The Edmonton Chamber is vitally interested in agricultural development, and strongly supports governmental action designed to further the interests of the farmer. It does, however, submit the following propositions for the consideration of the Commission:

(1) Subsidies should be visible rather than invisible. Most cooperatives in Alberta have started with little or no capital, usually with loans made by municipal or provincial governments, or even by the Dominion Government. Thus, they have already been the recipient of substantial visible subsidies. Subsidies to a cooperative, under certain circumstances, may be justified in the infant stage of development with a view to assisting until it is in a position to operate and





compete with some degree of security.

(2) Subsidies are not justified in any democratic society when they are continued to place the enterprise in such a position that it becomes a threat to its competitors because it is the recipient of discriminatory assistance. Subsidies at that stage not only advance the interests of one organization or class at the expense of another, but ultimately redound to the detriment of the subsidized class.

(3) Tax immunity, on the other hand, is an invisible subsidy. Tax immunity is not capable of exact computation. It is fundamental to our system of government that Parliament should exercise continuous and direct control of public expenditures through the budget. By granting tax immunity Parliament relinquishes control of the extent to which it will provide such subsidy which, once granted, has no limit. The larger the amount of business the greater the amount of immunity; the greater the amount of immunity, the greater the loss of revenue to the government of Canada and the greater the loss of revenue to the government of Canada and the greater the injustice against those who pay specified, predetermined tax levies.

#### 4. Danger of Monopoly

"The Edmonton Chamber of Commerce agrees wholeheartedly with the findings of the Turgeon Commission that cooperatives and independent corporations should be permitted to operate on a basis of free competition. In these days of high taxation ranging from thirty per cent to eighty per cent on the net income of independent corporations, tax immunity constitutes indirect subsidization of a significant nature. It has been said that the loss of tax revenue through the exemption of cooperatives, mutuals and state owned enterprises, approaches



\$100,000,000 a year. The Chamber, of course, is not in a position to substantiate or refute this statement. Also contributing to the direct loss of tax revenue should be added the losses sustained by virtue of depressed profits, due to tax immunity, lowering of public morale and the tendency in certain firms to 'sell out' and salvage capital in the face of a discouraging situation. The Chamber has been the recipient of representations by private business that it cannot operate indefinitely in competition with tax-free enterprises for the following reasons:

(a) Independent corporations are restricted under the present income and excess profits tax provisions to a fixed return on capital and are paying the excess over that fixed return to the government. Cooperatives, under Rochdale principles, also operate with a fixed return on capital, but are in a position to retain the excess for expansion purposes, either by the issuance of participation certificates, payable at the will of the cooperatives, or otherwise.

"Independent corporations assert that the annexing of capital in this way enables cooperatives to trade on their equities and to adopt policies which ultimately will force and, in fact, are forcing independent corporations to discontinue business, or to sell out to cooperatives.

(b) A fixed rate on capital limited as it is for corporations under the Excess Profits Tax Act to a return of seventy per cent pre-war profits or, alternatively, of seventy per cent of five or ten per cent of capital or pre-war profits, does not take cognizance of the rising material and labour costs for replacements of plant and equipment. Under the provisions of the Income War Tax Act obsolescence is not recognized as an expense, but such limitation is not applicable in the case of cooperatives.





"Therefore, as cooperatives are not taxes, their operations tend to expand even as the operations of competing independent corporations as a result of taxes tend to contract.

(c) Wartime controls are exercised largely through income and excess profits taxation. Thus infringements of the wages and salaries order are disallowed as an expense for tax purposes -- significant method of control of the independent corporation. Since cooperatives do not pay tax this form of control does not operate in so far as they are concerned.

"Canada has established a well-defined anti-inflation policy which has received the support of citizens generally. Control is exercised largely through income and excess profits taxes. It appears just that such control should apply with equal severity to all citizens and organizations. Cooperatives, however, since they are precluded from the provisions of Income War Tax Act and the Excess Profits Tax Act are not under controls placed on other corporations which come within the scope of these acts. These controls include the limitation of advertising appropriations, contributions, allocations to reserves for pensions fund, obsolescence reserves, capital expenditures and expenditures for repairs and replacements. Generally speaking, the items which are allowed independent corporations as expense for income tax purposes are subject to ministerial discretion and scrutiny. In the case of cooperatives these expenditures rest solely on their own discretion. Thus the regulations made by Parliament to prevent inflation are not equitably administered nor applied consistently.

"These conditions which have been submitted to the Chamber by independent corporations tend to nullify the freedom of competition and individual enterprise to the maintenance of



which the Chamber is committed, and, we believe, will ultimately lead to monopolistic control.

"Monopoly, in the opinion of the Chamber, is not in the best interests of the citizens of Alberta and of Canada. Monopoly is fundamentally opposed to the interests of both the producer and consumer and denies to both the inherent rights that are the privilege of free peoples. The consumer is entitled to the right of making up his mind from whom he will purchase; the producer is entitled to decide to whom he will sell.

"5. Private Capital and Development.

It is the opinion of this Chamber that private capital has an important function in the development of Alberta. Canadian economy has been built up because individuals, from pioneer days, were prepared to take risks with their labour and capital. The business and agricultural life of this province is still operated on that basis. Many of our business enterprises were conceived at the invitation or instigation of the government. All enterprise was encouraged to become established and develop in years gone by. This is still true. Since private business has been encouraged to expand its labour and capital in risks of enterprise surely the independent corporation is entitled to receive fair and equitable treatment in regard to government tax regulations and other measures of control. Further, it can be shown definitely that while private capital can and is ordinarily prepared to take risks, cooperatives tend to establish and develop in those communities in which the risk has already been taken by private capital, and thus they enter into competition with established enterprises.

"The Edmonton Chamber of Commerce therefore recommends





that Section 3 of the Income War Tax Act be amended to define as the taxable income of true producer and consumer co-operatives (those which conform to Rochdale principles or to section 4 (p) of the Income War Tax Act as amended), that portion of the merchandise sales which, after the payment of all necessary expenses and charges, is not returned to members in cash patronage dividends, but which is retained as surpluses and reserves.

6. Administration of Existing Legislation.

"Section 4 (p) of the Income War Tax Act defines co-operatives as 'companies and associations, whether with or without share capital, organized and operated on a co-operative basis, which organizations

(a) market the products of the members of shareholders of such cooperative organizations under an obligation to pay to them the proceeds from the sales on the basis of quantity and quality, less necessary expenses and reserves;

(b) purchase supplies and equipment for the use of such members under an obligation to turn such supplies and equipment over to them at cost, plus necessary expenses and reserves.

"Such companies and associations may market the produce of, or purchase supplies and equipment for non-members of the company or association provided the value thereof does not exceed twenty per centum of the value of produce, supplies or equipment marketed or purchased for the members or shareholders.

"This exemption shall extend to companies and associations owned or controlled by such cooperative companies and associations and organized for the purpose of financing their operations.



"From time to time the Council of the Chamber and its Taxation Committee have received representations that organizations purporting to be cooperatives and possibly using the name 'pool' or 'cooperative' in their title, whilst taking for themselves the immunities and privileges of cooperatives, are, in fact, ordinary profit-making competitive institutions. It has been suggested on a number of occasions that such enterprises have been and are using tax immunity as a weapon of competition. In this day of national emergency this is a serious charge, and one which strikes at the root of communal responsibility. This Chamber is not in a position to say whether these charges can or cannot be substantiated. It has not available to it books and records of the cooperatives or so-called cooperatives to ascertain, for instance, whether or not the twenty per cent provision of Section 4 (p) is being lived up to, or whether such enterprises operate with a valid obligation to return the selling price of their products to their members (in the case of producer cooperatives), or to return to their member customers the excess of selling price over necessary costs. The Chamber does say that the government of Canada has the necessary powers and facilities to set the public mind at rest on this important matter. Taxation is now a heavy and onerous burden on Canadian business and Canadian taxpayers have a right to expect that those who are liable for taxation under the Income and Excess Profits Tax Acts are required to comply fully with the provisions of the Acts. Any suggestion that any group of taxpayers by subterfuge obtain tax immunity will of necessity seriously impair the willingness with which other taxpayers will carry their burden of taxation. Public unrest and discontent would be bound to follow.





"It is submitted, therefore, that the Income Tax Department should be astute in examining the affairs of cooperative associations, or so-called cooperative associations, to verify that they are functioning within the ambit of the Act to ensure that they do not escape their fair share of the tax burden that should be borne by all at the present time. A leading counsel has said, 'It may be unfair to the general public for these associations to escape their fair and proper burden if they can escape taxation, but if they fail to be taxed when they properly should be, a fraud is committed on the general public.'

"With respect to representations under this section, the Chamber, therefore, recommends:

(a) That if Section 4 (p) places such an onerous burden on the administration, that it is not possible for the administration to ascertain on examination of the annual returns whether or not associations calling themselves cooperatives are operating under the terms of the Act or adopting a subterfuge, the section should be amended so as to make it capable of efficient administration.

(b) Alternatively, and whether or not the section is amended, the tax administration should be alert to its public responsibilities and should require all cooperatives to prove that they are at all times entitled to exemption under the Act.

"7. Conclusion.

"The Edmonton Chamber of Commerce in making this submission reiterates and emphasizes that it does not hold a brief for any section of business as opposed to any other section, for any group as opposed to any other group. As representing sincere, thoughtful Canadians, it is the function of this Chamber to fearlessly express what it considers to be in the



best interests of all. The Chamber recognizes the necessity for some forms of government ownership, but regards freedom of enterprise, individual initiative and the competitive system as fundamental to the development of Canada's best interests. The Chamber, therefore, pleads for equality of incidence in income and excess profits taxation on cooperative and private organizations; on shareholders and on cooperative members.

"In Great Britain the immunity of cooperatives from income tax was a vexed question for many years and was finally settled by placing all cooperatives on a somewhat similar basis to corporations. A Senate Committee in the United States reports on investigation of cooperatives in European countries that the cooperatives' leaders themselves do not desire tax immunity, but prefer to operate on a basis of free competition with private capital (x). Many cooperative leaders advocate the principle that cooperatives should function freely and on an open market in competition with private capital and with each other, and without tax immunity."

(x) Dr. James P. Warbasse, Superintendent of the Cooperative League of the United States;

Prof. A. M. Carr-Saunders	)	
Prof. P. Sargent Florence	)	Consumers Cooperation in
Prof. Robert Peers	)	Great Britain.

Edmonton, Alberta,  
January 25 - 26, 1945."

. . . . .

It is only fair to say that on the council of the Chamber there is not at the present time any executive officer of a cooperative organization or pool, although of course there are cooperative advocates.

By Mr. Parker:

Q. I take it you prepared this document?                      A. No.





Q. How was it prepared?

A. By the taxation committee of which I am head. It was presented in draft to the council of the chamber and gone over clause by clause and a substantial number of amendments were made. It was redrafted by the secretary of the committee, who is secretary of the chamber, and finally passed by the taxation committee.

Q. How many constitute the executive?

A. Probably about sixty, and there would be forty there on the day the matter was considered.

Q. How many members of the Chamber are there?

A. Around eight hundred. That includes the active agricultural section.

Q. You divide them into three classes including business and professional men and agriculturists. Can you give approximately the number under each of these headings?

A. No, I am sorry I cannot. How many agriculturists have we? Eighty, I think.

Q. Are you satisfied that you are speaking the views of those eighty members of your Chamber who are agriculturists? A. I can only say that the head of their section was there at the council meeting.

Q. The head of what? A. The head of their section.

Q. Are they divided into three sections?

A. No. There is a section known as the agricultural section. It is a group of a dozen and the Chairman of that section is ex officio a member of the council, and he has been there on numerous occasions on which the question has been argued and debated in the council over the past three years. These are not the views of the agricultural section and I can only say that the other point of view has not been presented



to the council by them.

Q. All I want to know is whether the chamber is speaking unanimously or whether there is a difference of opinion between the agriculturists of the Chamber and the others.

A. I would say not.

Q. At the bottom of page one of the brief this statement is made: "The Edmonton Chamber is vitally interested in agricultural development, and strongly supports governmental action designed to further the interests of the farmer." Tell me what action the Chamber has taken to assist agriculture in the last year or two apart from expressing sympathy. What action has it taken?

A. What action has been taken by the government?

Q. No, by the Chamber.

A. To assist agriculture?

Q. Yes; outline the nature of it. A. One of the things they are designing is a short course of interest to agricultural members.

Q. A short course in what? A. In agricultural methods.

Q. Where do they propose to give the course?

A. Edmonton.

Q. Who are to be the instructors? A. Leading agriculturists.

Q. Do you know any of them? A. Some of them are at the university.

Q. Is it to be done through university facilities?

A. Yes, probably through the department of extension, although I am not speaking with absolute knowledge.

Q. It is just in contemplation? A. Yes.

Q. That is, hardly anything has been accomplished?

A. If you are interested in that point, --





Q. I am interested in what I asked you. Tell me in a few words what active assistance your Chamber has extended to agriculturists.

A. Do you mind if I consult the Secretary of the Chamber for a moment?

Q. I would like to know what you yourself know.

A. I suggest that you ask him.

Q. You cannot answer that question? A. No.

Q. I will not press it then. At the top of page two you say: "Most cooperatives in Alberta have started with little or no capital, usually with loans made by municipal or provincial governments, or even by the Dominion Government." On consideration, do you think that is quite so? A. Yes.

Q. Don't you think that a great many of them have started without such loans? A. Without loans?

Q. Without government loans -- that is, having financed the undertakings themselves. A. If you take the total of the capital invested in cooperative interests at the present time, a large proportion of it is represented by those who have received government subsidy through the guaranteeing of bank loans.

Q. I am wondering if you did not give that the wrong shade of meaning, if not the wrong colour, when you said that they have started with government assistance. Have you any knowledge of that? A: No, not particularly. I am suggesting that you can express that either by the number of co-operatives or by the amount of capital.

Q. I appreciate that, but I do not quite understand the statement in the middle of paragraph three on the same page: "By granting tax immunity Parliament relinquishes control of the extent to which it will provide such subsidies which, once granted, have no limit." Isn't that a somewhat



extravagant statement? Do you not think so on consideration?

A. It may be extravagant, but in the opinion of the Chamber it opens up a very important point. The government of Canada in the budget only controls expenditures which go in certain directions. By giving immunity from taxation it cannot definitely control the amount of subsidy which it is giving.

Q. What do you mean by that? A. That is in effect what we mean.

Q. In the next paragraph you say: "It has been said that the loss of tax revenue through the exemption of co-operatives, mutuals, and state-owned enterprises, approaches \$100,000,000 a year." That is not very helpful to the Commission -- "It has been said". "It has been said", "such and such a thing has been said," and so on, not even quoting it authoritatively so that we can judge whether the figures you mention have any meaning. However, what is that statement based on? A. That is based on a public address.

Q. Your chamber have not taken the trouble to verify or check these figures? A. No.

Q. You say you cannot substantiate it? A. We did ask representatives of the cooperatives to make a public statement.

Q. In that same paragraph you say: "The Chamber has been the recipient of representations by private business that it cannot operate indefinitely in competition with tax-free enterprises for the following reasons." And you go on to enumerate those reasons. I suppose, like all Chambers of Commerce, they are continually receiving complaints of one kind or another from members? A. Yes.

Q. And really all that means is that you received complaints. That is reducing it to its proper proportions?





A. In the last three or four years, in numerous instances, it has received representations on this point.

Q. And have they ever taken any action on it?

A. Yes. They have passed resolutions from time to time.

Q. I dare say you have appointed a committee to look into it? A. Yes.

THE CHAIRMAN: That is a truly democratic habit, to pass resolutions.

MR. PARKER: It usually disposes of a great many things.

Q. On page four you say: "Further, it can be shown definitely that while private capital can and is ordinarily prepared to take risks, cooperatives tend to establish and develop in those communities in which the risk has already been taken by private capital, and thus they enter into competition with established enterprises." What do you base that statement on? A. That is a statement which represents the composite view of the council and I suggest that later on you will have an opportunity to examine me more fully on that point.

Q. I have an opportunity now. You have made statements and I want to know if they have any value.

A. I suggest that later on we shall be submitting data.

Q. The Chamber is? A. No, I am.

Q. I am speaking to you now in your capacity as an officer of this institution. I want to know what is the basis on which the Chamber, through you, makes that statement.

A. The basis on which the Chamber is making that statement is that ~~it~~ has had represented to it that cooperatives, so-called cooperatives, do not generally tend to go into remote areas.

Q. But you have no personal knowledge of that?



A. Yes.

Q. Where did you get it? A. I will give it later on.

Q. Have you any objection to giving it now? A. Yes, I have.

Q. One more question. In the next paragraph, do I understand you to express the view that amendments should be made, that your Chamber is prepared to admit that the so-called patronage dividends are properly not taxable?

A. That is our position. We interpret the terms 'income' and 'equality of income' as between the individual and the cooperative, in the case of a true cooperative, as being income less patronage dividends.

Q. Just one more question and I am absolutely through. At the bottom of the page you say: "From time to time the council of the Chamber and its taxation committee have received representations that organizations purporting to be cooperatives and possibly using the name 'pool' or 'cooperative' in their title, whilst taking for themselves the immunities and privileges of cooperatives, are, in fact, ordinary profit-making competitive institutions." What evidence have you to back up that statement? What facts have you? It is facts that the Commission is anxious to get. A. The facts are that these representations have been made to us and later in the day you will be in a position to examine me on the actual facts.

THE CHAIRMAN: In view of the statements on the fourth page, to which Mr. Parker has just referred, you evidently point to what might be called a disease in the cooperative body. Does the Chamber suggest any specific remedy?

WITNESS: It does suggest, sir, that the first stage is to correctly define or describe what we mean by the term



"cooperatives" in the Act.

THE CHAIRMAN: And how would it be determined whether a body came within that definition -- by court action or government action?

WITNESS: By administration of the Act and by all that is implied in administration, which would be court action.

THE CHAIRMAN: Do you mean by that, a special tribunal or commission to determine what is a true cooperative and what is not in each individual case? Is that the extent of the recommendation?

WITNESS: No. Our recommendation is, sir, that generally, if section 4 (p) cannot be administered at the present time, it be amended so that it can be administered.

BY MR. PARKER:

Q. You are not suggesting some sort of permanent board analogous to a board of referees? A. No.

BY MR. ARNASON:

Q. At the bottom of page three of the brief you suggest that because cooperatives are allowed to retain a portion of the surpluses for expansion, that is in effect tending to force independent corporations out of business by selling to the cooperatives? A. Yes, I think that is so.

Q. I was wondering how much weight you attach to that factor as being a reason why cooperatives are purchasing private businesses. I would put it this way: Is it not possible that there may be another method which is used by cooperatives to purchase certain private businesses -- that is, by additional capital being subscribed by the members of such cooperatives when they desire to extend their holdings through the purchase, let us say, of what was formerly a privately owned retail store. I was wondering whether you





had information in that regard? A. It is very much the feeling of our council that this has had a tremendous effect on the practice of private enterprise, although unquestionably there are many motives. On the one hand, as Mr. Fitzpatrick suggested, a man may be getting old and wants to retire. His sons and daughters are at the war. On the other hand, he is in the position that if he continues in business he faces a heavy taxation burden and he can make a heavy capital profit by disposition. All these have to be borne in mind.

Q. Do you consider the retention of these reserves as the only reason why these cooperatives were not in a position to purchase other businesses? To put it another way, would you attach considerable importance to the raising of special capital for expansion purposes by subscription on the part of the members themselves? I suggest that that may be another factor to be taken into consideration?

A. That might well be.

Q. I was wondering whether you had definite information on that?

A. No, we have not, frankly.

MR. PARKER: The next case will be the Alberta Livestock Cooperative.

. . . . .



Alberta Livestock Cooperative Limited

MR. PARKER: I propose now, Mr. Chairman, to submit to you -- and possibly they can be dealt with together -- one brief filed by Alberta Livestock Cooperative Limited and another by Grande Prairie Cooperative Livestock. Mr. Milvain is representing both and I have suggested to him, if he feels that it is fair to the people he represents, and to others who are interested, that it would shorten the proceedings a bit if he did not read at length such portions as are not essential, leaving it to his best judgment.

MR. MILVAIN: The proceedings could be somewhat shortened in that manner.

THE CHAIRMAN: Are the submissions much alike?

MR. MILVAIN: The Alberta Livestock Cooperative Limited, which presents the main brief, is made up of a number of member associations, and the Grande Prairie is one of those members. We felt that it was advisable to give the history of the whole body and of one of the members so that you would have a complete picture. I will call Mr. H.W. Allen, who is president of both associations.

MR. H. W. ALLEN,

President of The Alberta Livestock  
Cooperative Limited and Grande Prairie  
Cooperative Livestock, having been  
duly sworn testified as follows:

BY MR. MILVAIN:

Q. You are president of both the Alberta Livestock Cooperative Limited and the Grande Prairie Branch or member association? A. Yes.

Q. And you are here to present briefs to this Commission on behalf of these associations? A. Yes.





Q. You might tell the Commission first how long you have been in the livestock business in the province of Alberta.

A. I came to the province in 1941 and I have been here as a farmer ever since.

Q. In what part of Alberta do you yourself reside and carry on your activities?      A. In the Grande Prairie district.

Q. Which is considerably north of this city?      A. Yes.

Q. Will you read the brief?

MR. ALLEN:

Brief Submitted by Alberta Livestock  
Cooperative Limited to Royal Commission  
on Taxation of Cooperatives

"1. Introduction

The province of Alberta occupies a leading place among the provinces of Canada in the production of livestock, As a matter of fact it leads all of the provinces of Canada in the production of hogs and is second in marketing of cattle. It could be expected that in a province where livestock production is such an important part of agriculture there would be found a vigorous development of the cooperative method of marketing livestock.

"There has been such a development in Alberta, notwithstanding some unfortunate reverses in the early thirties. The history of cooperative handling and marketing of livestock goes back to the earliest days of provincial life. There is a reason for that long history. It lies in the peculiarly difficult position of the average farmer, particularly in the early years of this century, when he came to market his cattle or hogs. If he was one of the fortunate few who had enough livestock to market at one time to load a car he could, of course, ship same to the nearest livestock



yards, Edmonton or Calgary, and sell through one of the Commission houses established there on the basis of a carload lot. The average farmer could not do that. His only market was through the nearest drover. The drover carried on the business of purchasing livestock from farmers, either on his own behalf, or as a representative of large buyers such as packing plants, and shipping same to such market as he had established. He had to assume all the risk of collecting and shipping such livestock as was purchased by him, and therefore, had to protect himself by adequate margins. The individual farmer with only a few head of cattle or hogs to sell was not in touch with daily market prices, and therefore, found prices varying very considerably from day to day even at the same market point. The spread between the price paid to him and the prices prevailing at the central livestock yards, before cooperative marketing associations were formed, was very wide and was the subject of widespread distrust and bitterness. The scattered nature of settlement and population made the position of the individual producer even worse.

"At a very early date, therefore, livestock producers attempted to improve their marketing position by cooperative methods. The earliest efforts in this direction took the form of small cooperative livestock shipping associations organized around a particular railway shipping point. While early records are uncertain there seems to be evidence of such a local cooperative shipping association as far back as 1907, and apparently a number of such Associations were organized in the next few years.

"In 1913 the Alberta Farmers' Cooperative Elevator Company, Limited was organized primarily for the operation



of country elevators. Notwithstanding the nature of its main business it soon turned its attention to developing a plan for the cooperative shipping of livestock by which a number of producers at a given point could load a car and consign it to the company at the Edmonton or Calgary Livestock Yards, where the livestock would be sold on car-lot basis and settlements distributed among the various producers whose livestock had made up the car. When that Company amalgamated in 1917 with the Grain Growers' Grain Company, Limited, to form the present United Grain Growers, Limited, the livestock department was vigorously carried on and the organization of local cooperative shipping associations was encouraged for the purpose of assisting in assembling and shipping livestock from local points. By the early part of 1920 cooperative livestock shipping associations had been extensively organized throughout the province.

"Following the introduction in 1923 of the contract pooling form of cooperative organization, a movement developed in the province to organize a central cooperative selling agency on the pooling basis, with the result that a cooperative known as the Alberta Livestock Producers' Limited was organized and commenced business as such a selling agency for the local cooperative shipping associations. By mutual agreement United Grain Growers, Limited agreed to leave the field to the newly formed selling agency and closed its offices at the Calgary and Edmonton Stock Yards. The Alberta Cooperative Livestock Producers' Limited operated as a central selling agency for four years, but unfortunately it had pledged its credit by way of guarantee to some of the local shipping associations, which suffered heavy losses as a result of the severe declines in prices in the early 30's, with the





result that this selling agency was forced into bankruptcy in 1932. A number of local shipping associations also were forced out of business in these years, but a considerable number of the more successful ones remained in operation.

"In the succeeding years from 1932 to 1941, the survivors continued to operate, their function usually being limited to assembling and shipping livestock, leaving the marketing of their produce to Commission firms at the Edmonton and Calgary Stock Yards. The ultimate objective of a Central Selling Agency for such associations had not been abandoned, however, and through the field service work of the United farmers of Alberta steps were taken again in 1941 to organize such a selling agency, with the result that this Association, Alberta Livestock Cooperative Limited, was incorporated on May 8, 1941.

## "2. Organization

"This Association is one of two cooperative organizations of the province which have no individual membership. Its membership consists entirely of local cooperative livestock associations hereinafter referred to as "Members", the most of which are incorporated under the Cooperative Marketing Associations' Act, although the older ones had to look to the old Cooperative Associations' Act, or the Alberta Companies' Act.

"The members have the privilege of sending delegates to the annual meeting of the Association on the basis of one delegate for each 250 members with a maximum of three delegates for any one member body. A membership fee of \$5 per delegate is charged with a fee of \$15 for an affiliate member. The Association is, therefore, based on membership only. There is no capital stock.

"The Association is unique in the manner in which its



Board of Directors is elected. The articles of association provide that the directors may by resolution designate any company, association or organization, composed of farm members, and organized on a cooperative basis, which in their opinion may assist in promoting the aims and objects of the Association, to be an affiliate member. The articles then name U.F.A. Central Cooperative Association Limited, United Grain Growers Limited, and the Alberta Wheat Pool as affiliate members. The Board of Directors consist of ten members, three of whom are named by affiliate members.

"The relationship between the Association and its members, and the terms and conditions under which the Association acts as selling agent for its members, are set out in a marketing agreement, copy of which is filed herewith. For the purposes of this brief, the important terms of this agreement are:-

"1. The member agrees to consign to the Central Association all livestock collerted, assembled or acquired by it for the purpose of marketing or sale.

"2. It appoints the Association its exclusive agent, factor and mercantile agent for the purpose of selling, marketing and disposing of the said livestock.

"3. The Association agrees to sell, market and dispose of all livestock delivered to it to the best advantage and to pay to the member the proceeds thereof, less only:-

- (a) The cost of handling the livestock, including all brokerage, tolls, freight, yard charges and insurance and,
- (b) A deduction of \$1 per car for a commercial reserve.

"4. The Association will annually at the close of its fiscal year issue to the members a reserve share certificate covering the amount deducted as above.





### "3. Business Methods

"The Association commended business by taking over the commission business of Claude Campbell & Company Limited. Mr. Campbell had been connected with the cooperative marketing of livestock since the early days of the province and his Company had acted as selling agency at the Edmonton Yards for a number of shipping associations. To assist it in commencing business loans were made to the Association by the Alberta Wheat Pool, United Grain Growers Limited, the United Farmers of Alberta, and five local livestock marketing associations. These loans were all paid back in the first two years of operation.

"For a time the business of the Association was confined to the Edmonton Livestock Yards. In 1941 it commenced operations on the Calgary Yards through a commission house there. In March 1943 steps were taken to open up offices at the Calgary Stock Yards and the business of a commission firm operating at those yards was purchased by the Association.

"Active steps were taken to organize local associations and to enlist the support and patronage of those already doing business. At the present time forty four local cooperative shipping associations are members of this Association and they comprise a total membership of approximately 20,000 livestock producers in the province.

"The business done by the Association with its members has increased steadily as shown by the following table which summarizes its business from the time it commenced operation to the end of the fiscal year ending May 31, 1944:-

#### "Volume Handled

Fiscal Year 1941-2 (10 months)

<u>Cars</u>	--	<u>Gross Value</u>
3637		\$6,210,357,78



Fiscal Year 1942-43

<u>Cars</u>	<u>Gross Value</u>
7012	\$14,457,918.78

Fiscal Year 1943-44

11405	\$23,610,772.14
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"In those figures one sees not only evidence of growth of the Association, but also a reason for the better conditions in western Canada. It also shows the tremendous productive capacity of this province.

"The business of the Association is confined almost entirely to that of its member bodies. The only non-member business consists of the odd load of livestock that may be consigned to the Association at the Calgary or Edmonton Stock Yards. The proportion of this non-member business to the total business of the association is small. In the fiscal year ending the 31st day of May, 1943, the percentage of non-member business to member business was only seven per cent and in the next fiscal year ending May 31, 1944, it was only 4.3 per cent.

"The Association works in close relationship with the Saskatchewan Cooperative Producers' Limited, a central livestock marketing association in the province of Saskatchewan, as well as Canadian Livestock (western) Limited, a cooperative with head offices at Winnipeg, which services the province of Manitoba in a similar capacity. The Association markets any livestock consigned to the Winnipeg Yards through this latter Association.

"In order to give your Commission an over-all picture of the manner in which the duties of the Association and its members are interlocked the following explanation may be of interest.





"Each member association serves its own member producer of livestock in a certain shipping area of the province. For example the Grande Prairie Cooperative Livestock Marketing Association Limited covers the territory served by the branch line of the Northern Alberta Railways South of the Peace River throughout the entire Spirit river - Grande Prairie districts with thirteen shipping points. The Blindman Valley Cooperative Association Limited serves the territory commencing west of the town of Lacombe and taking in the entire valley of the Blindman river.

"The Manager of each Association is responsible for the assembly of livestock at the various shipping points in his territory and the organizing of shipping days arranged so that cars may be available to pick up the livestock at each point over a given schedule of time as the freight train makes its run over the line. Upon delivery of livestock to the shipping point the producer is given as advance payment by the member association if he so desires.

"Manifests covering the car are made out by the manager and the shipment is consigned to the Association at its yards at Calgary or Edmonton, or such other yards as the Association may direct, except that a large percentage of hogs are shipped directly to a packing plant selected by the Association.

"Upon arrival of the shipment the livestock is sold and returns made to the members association after deducting the charges of the Association for handling the car.

"For livestock sold through the public stockyards a statutory charge per carload or per head is made for various types of livestock, the said charges being fixed by the stockyards under the Dominion Livestock Marketing Act. The stockyards are incorporated bodies operating under the said Act.





"As stated above a large proportion of hogs are shipped directly to packing plants and for these a charge is made fixed by agreement between the Association and its member. Since carcass grading of livestock came into effect, hogs are purchased directly by the packing plants and do not go through the stockyards, and therefore, no statutory charge applies.

"4. Method of Financing

"From the above it will appear that the Association has the following sources of revenue:

"1. Deductions at the rate of \$1 per carload of livestock as provided in the contract between the Association and its members, for which reserve share certificates are issued. The balance sheet of the association filed herewith shows that on May 31, 1944, the amount of these deductions was \$16,977.75. At the last annual meeting of the association the members instructed the Board of Directors to return to the members the deductions made in the first business year. In other words the members determined to put this fund on a three year revolving fund basis.

"2. From the charges made by the Association for handling and selling livestock shipped by its members. At the end of the fiscal year any surplus earnings from this source are allocated among the members in the proportion of business received from each after deducting two reserves, one a reserve for cooperative education and the other an operating reserve. The said balance sheet shows that at the end of the last fiscal year the first named reserve stood at \$1,007.51, and the second at \$7,230.08.

"At the said date the surplus represented by deferred final payment certificates amounted to \$12,254.00. A statement showing the allocation of this surplus among members is given at the annual meeting.



"The balance sheet also shows the surplus earned during the last fiscal year and the amount of this surplus set aside for education and operating reserves, the balance of the operating surplus being again allocated to members.

"The operating reserve is to provide funds for the operations of the Association and is not allocated among members each year. Under the Marketing Agreement this reserve is held for the benefit of members, but allocation is deferred.

"The reserve for cooperative education is used for general educational purposes, such as contributions to the Canadian Federation of Agriculture, the Extension Department of the University of Alberta, and more particularly the short courses provided by the university annually for officers and managers of cooperatives. This fund is also used to organize meetings for officials of the livestock departments of the Dominion and Provincial governments throughout the province.

"5. Income War Tax Act

"The Association operates as a marketing agency only under a marketing contract with its members. It is not organized for profit making, but is a service organization entirely, and the Association maintains that it is completely exempt from taxation.

"While this Association is exempt from Income Taxation under section 4 (p) of The Income War Tax Act it believes that some of its members Associations have been meeting with some difficulty recently. Apparently income tax officials are inquiring from some of the associations as to whether they have maintained adequate records to show their ability to allocate undistributed surplus among members in proportion to the volume of their business. It is understood that some of the older associations, whose records go back many years, are





meeting with difficulty in that respect. The amount involved is not large in any case. It is suggested that this is too rigid an interpretation of Section 4 (p), especially when that section makes provision for reasonable reserves without specifying that such reserves must be allocated. It might be again pointed out that some of the older Associations were incorporated under the original Cooperative Act or the Companies Act which require a share capital basis and some pay interest on capital so invested. This Association would strongly protest interpretation of section 4 (p) under which an association incorporated on a share capital basis and paying interest on that share capital was completely denied exemption under section 4(p).

6. "Conclusion"

"The Association provides a daily broadcast of market prices which it believes is of considerable help to farmers in keeping them informed on market conditions. The livestock producers of the province through this association have a guarantee that they can market their livestock at current market prices, less only a fixed charge which they have full opportunity to discuss at the annual meeting. They are, therefore, satisfied that the charge is a fair and reasonable one.

"The association has recently undertaken a series of conferences with representatives of the packing industry with a view to making more uniform prices at local shipping points and doing away with certain abuses which seem to have grown up with the industry. The association believes its greatest contribution to agriculture is through its educational work. At recent conferences of those interested in livestock production it was admitted that the association was more closely in touch with the producers than any other organization.



The association believes it has contributed largely to the increase in production so necessary during the war years and in particular the association believes that it contributed much to the acceptance by producers of compulsory carcass grading of bogs recently put into effect. It is doubtful if that change could have been put into effect without the educational work of this and other similar organizations.

"As stated above the association is a service organization entirely and submits that it should not be made subject to taxation under the Income War Tax Act.

"Dated at Calgary, Alberta, this 20th day of January, A.D. 1945.

Respectfully submitted,  
Alberta Livestock Cooperative Limited,  
Per: H. W. Allen,  
President."

. . . . .

BY MR. MILVAIN:

Q. You have another brief? A. Yes.

Q. That is the brief on behalf of the Grande Prairie Cooperative Livestock Marketing Association Limited?

A. Yes.

Q. You might read it.

WITNESS: This is only a short brief, Mr. Chairman, It reads as follows:

Brief Submitted by Grande Prairie Cooperative Livestock Marketing Association Limited to  
Royal Commission on Taxation of Cooperatives

"This brief is intended to be supplementary to the brief submitted by Alberta Livestock Cooperative Limited, for the purpose of placing before your Commission the position of one of the member associations of that central organization.

"The head office of the association is at Sexsmith in





the Peace River section of Alberta; and it operates over what may be called the Spirit River - Grande Prairie Districts, with a total of thirteen shipping points.

"The Association has actually been in operation since 1918, although it was not incorporated until March 1926. Producers located around the town of Grande Prairie formed an unincorporated body for the cooperative handling of their livestock and operated as such an unincorporated body from 1918 to 1922. From 1922 to 1926 the operations were carried on by the livestock department of United Grain Growers Limited. In March 1926 the producers decided to incorporate and incorporation was taken out under the Cooperative Marketing Associations' Act.

"By its memorandum the Association is empowered to act as receiving agent for and to take delivery of all marketable livestock consigned to it by its members and to ship, sell, market or otherwise dispose of same. The usual incidental powers are included in the Memorandum. The said Memorandum further provides that the Association is to have no share capital and the interest of each member is to be based on the volume of business done by him.

"The Association is divided into five districts with provision by which the members in each district elects one director.

"The relationship between the Association and its members is determined by marketing agreement, copy of which is filed herewith. This agreement contains the usual provisions by which the member agrees to deliver to the Association the livestock which he wishes to dispose of, and the Association agrees to receive and sell such livestock at the best price obtainable, and to pay over to the member the net amount received therefor, subject only to the following deductions:





"(a) The proportionate share of the cost of handling each kind of livestock.

"(b) A sum not exceeding one per cent of the gross selling price for a commercial reserve.

"The agreement is made for a period of one year, but is automatically renewable from year to year until terminated by notice by either party.

"The Association requires no membership fee. The only condition of membership is the signing of the Marketing Agreement. In its early years there was a membership fee of \$2, but this was discontinued several years ago.

"The Association exercised the right of deduction and did deduct one half of one per cent of the gross selling price for a time, but this practice was discontinued some four years ago when the Association became in a sufficiently strong position to carry on without further deductions.

"Filed herewith is a copy of the statement submitted at the last Annual Meeting of the Association held in Grande Prairie on June 27, 1944. It includes a copy of the Balance sheet of the Association, as well as its operating account.

"The statement shows its membership as of April 30, 1944, to be 2169, or an increase of 1,016 over the previous year.

"A table of its handlings from April 30, 1941, to April 30, 1944, is also shown as follows:

<u>Year</u>	<u>Handled</u>	<u>Gross value</u>
April 30, 1941	14,901	\$ 262,861.36
April 30, 1942	24,653	585,913.87
April 30, 1943	42,318	1,206,141.17
April 30, 1944	59,705	1,755,484.25

"It is interesting to observe that in the four years shown in this statement the gross value of \$3,810,400, while



the total gross value of livestock handled in the fourteen years from 1926 to 1940 was only \$1,969,341. In other words the gross value of livestock handled in the last four years is more than double the value of livestock handled in the fourteen years, although the numbers handled in the four years does not show the same proportionate comparison.

"The revenue of the Association is now derived entirely from charges made for handling the livestock of members. Cattle and sheep are handled on a basis of charges as near cost as possible. The charges for handling hogs are sufficient to allow for a refund of charges at the end of the year. As shown by the balance sheet at the end of the year excess charges are partly refunded to the members in cash and the balance is held for the benefit of the members under the terms of the contract. A ledger account is kept for each member showing his deliveries and any unpaid surplus is held subject to allocation on the basis of these accounts. For example for the fiscal year ending the 30th day of April, 1943 the surplus and reserves balance was \$22,095.23. Of this \$10,593 was paid back to the members in cash and the balance - \$11,500 was held by the Association for future allocation in the manner above mentioned. For the fiscal year ending April 30, 1944, the operating surplus of \$17,868.09 was dealt with in the same proportionate manner.

"Dated at Calgary, Alberta, this 20th day of January, A.D. 1945.

"Respectfully submitted,

Grande Prairie Cooperative Livestock  
Marketing Association Limited,

Per: H. W. Allen."

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BY MR. PARKER:

Q. Just to clarify one passage Mr. Allen, will you look at page four of the main brief. You name three companies, the Alberta Wheat Pool, the United Grain Growers, and the United Farmers of Alberta as affiliate members. What service did they render? A. That will appear in another part of the brief.

Q. Just what is the relationship between the association and these members? What service do they render the association, or what service do they receive on becoming members? A. In another part of the brief it outlines the set-up which allows affiliate members to become --

Q. Directors? A. Yes, directors; and the original object, as I take it, was to get the experience which these farming cooperatives have had -- to make it available.

Q. To have some experienced men on the board at the start? A. Yes.

Q. Was that the purpose in setting up the membership? They don't actually use your association?

A. Yes.

Q. They render advice? A. Yes.

Q. And in this particular case they advanced you money to get started? A. Yes.

Q. Those loans have since been paid back? A. Yes.

Q. How is that money provided for paying the loans? A. That came out of the revenue for that year.

Q. How was the revenue derived? A. It is outlined there, the sources of revenue based on handling charge and also on the amount levied per car, a special charge of a dollar a car authorized at the annual meeting. Out of the revenue provided by these two sources those loans were repaid.



Q. They were not very big loans? A. No.

Q. In the next paragraph you say: "In March 1943 steps were taken to open up offices at the Calgary stockyards and the business of a commission firm operating at those yards was purchased by the association." The funds for the purchase of that were obtained from the same source? A. Yes.

Q. On page five you say: "The association works in close relationship with the Saskatchewan Producers' Limited." I do not quite understand the connection between your association and these others and how one serves the other.

A. There is no direct business connection, but the livestock that is processed in this province, or to put it the other way, the livestock produced in the province is not all processed here. There is a certain area on the east side of Alberta that is bought by Saskatchewan organizations and is processed either in Saskatchewan or in Manitoba, and sometimes even in Ontario, and the relationship is purely a business relationship to avoid a clash at provincial boundaries. Our charter only covers Alberta, but we have a working arrangement.

Q. You sell that to the other association? They act for you as agents? A. We can sell to them at Winnipeg and their selling agency sells to us.

Q. And it comes back to you? A. Yes.

Q. Further down on that page, in the second last paragraph, you say: "Upon delivery of livestock to the shipping point the producer is given an advance payment by the member association if he so desires." On what basis are these advances made -- on estimated cost?

A. These advances are not made by Alberta Livestock Cooperative; they are made by member associations to the individual producer.



Q. But not through the parent association? A. No.

THE CHAIRMAN: How do you arrive at the figure to be advanced?

WITNESS: I presume various associations arrive at it in different ways, but the general practice is to advance a percentage.

BY MR. PARKER:

Q. On what you estimate the ultimate selling price to be? A. Yes.

Q. Does that vary with the different member units of the association?

A. Yes; it varies slightly. Some might want to play very safe.

THE CHAIRMAN: Your association has no control over that particular feature?

WITNESS: No. We don't make advances.

THE CHAIRMAN: Do you offer advice to the member units?

WITNESS: I don't think that as a matter of practice we do.

BY MR. PARKER:

Q. You make an advance and then dispose of the live-stock. By "you" I mean the member companies; and the member company gets the proceeds? A. Yes.

Q. Are those proceeds paid over to the parent association and do they in turn hand them on to the producer, or do they go direct from the member association to the producer?

A. Generally there is a little difference in handling the various types of livestock, as mentioned in the brief. Cattle are sold mostly in the stockyards, and the proceeds in that case would go from our selling agency, which sells the cattle and collects, back to the member association in the country. The marketing of hogs is a little different.





Q. These proceeds would not go through the parent association? A. Yes. It is the parent association that does the actual selling of the cattle.

Q. And they pay the money over to the parent association? A. The man who buys the cattle in the stockyards pays the money to the parent association and they in turn pass that back to the member associations and they divide it among the members.

THE CHAIRMAN: Is it subject to any deduction as it goes back to the member units?

WITNESS: As is mentioned here, for that stock sold in the public stockyards there is a statutory charge which all commission firms levy, and that is deducted from the amount that goes back to the local association in the country. Then the local association has a handling charge of its own which it deducts before passing the proceeds on to the individual farmer.

BY MR. PARKER:

Q. Let us consider the local association for a moment. They have money in their hands, and out of that money let us assume they make an advance. Let us see if we can get this in order. First they deduct their own handling charge; secondly they set aside one reserve, or two? A. In the case of the parent association?

Q. Speaking of the local. A. The local association would vary. Some have no reserve but simply a flat charge, so much per hundred for marketing hogs and cattle. That, I believe, is the general practice.

Q. Is that treated as members' money or the association's money? A. That charge?

Q. Yes. Does the member have a claim to that later on?



A. It becomes a surplus and at the end of the year in most cases the annual meeting directs the local association to distribute this earned surplus among the producers who have contributed the livestock, on the basis of so much a hundred.

Q. So having charged the producer with the amount of his advance against the amount received, these charges later go into the surplus. In cases where you have a surplus and a reserve, are they at once allocated to the members in proportion to what they would some day be entitled to get?

A. That is something which would vary with different local associations. I suppose this brief I have submitted in connection with Grande Prairie represents a typical country association, and their practice is not to allocate these beyond carrying a ledger account showing the exact contributions of each member for each year.

Q. It is divided up so that it would indicate what each member was entitled to, whether it was actually paid or not?

A. Yes.

Q. Under what circumstances is it paid to him, or under what circumstances can he go and get it if he wants to?

A. At the annual meeting, as a rule, the board of directors is instructed by the meeting to distribute a certain amount.

Q. By "distribute", do you mean actually pay as distinct from allocating? A. Yes, they actually pay it over. During the year the manager or the secretary pays this amount, whatever you want to call it, excess charge or patronage dividend, based generally on so much a hundred to each member in proportion to what he has marketed to the association.

Q. What I am getting at is this: Speaking of what is credited to him on the books, under what circumstances does he actually get that money? Some have certificates issued as representing the amount to which they are entitled. What





do your people hand out, if anything, to the member so that he will have in his possession something to tell him what his interest is in these returns or surpluses? Do you understand the question? A. I think I do. As far as Alberta Livestock Cooperative is concerned, the parent organization, we issue certificates each year to the member association showing their equity in these reserves.

MR. NASH: Are those the final payment certificates mentioned in the balance sheet?

WITNESS: No. I rather think there is a confusion there.

BY MR. PARKER:

Q. Will you see if you can clarify it. I want to know two things: first, what documents, if any, are issued to these members to indicate that they have a right to the reserves and surpluses? If they are kept separate, are there two types of certificates? If so, tell us about both and at the same time tell us when these certificates mature and when a man can get his money. Do you understand me?

A. Yes.

Q. Well, will you explain it to us. A. Alberta Livestock Cooperative issues certificates showing the equity of its members in each of these reserves. In regard to the reserve which we generally term the car reserve -- it comes from the assessment of one dollar per car -- that has already been paid out. We started to pay that out on the revolving fund plan, the three-year plan. Payments have already been made on that. In regard to the other reserve, we have only issued certificates and there is no definite period as yet set as to when these certificates will be available.

THE CHAIRMAN: Available or redeemed?

WITNESS: Redeemed rather.



BY MR. PARKER:

Q. And that general principle, with some slight modification, would be true of all member associations of Alberta Cooperative? A. I presume it would, in modified form.

Q. The principle would be the same? A. Yes.

Q. Do you know whether as a rule the individual members, in making their income tax returns, regard the amount represented by these certificates as income which they should show in their returns? A. When they receive a certificate showing their equity in these funds, do they regard that as what?

Q. The same as actual cash in their hands, as though they had had that more income?

MR. MILVAIN: Mr. Allen is being asked to make a guess.

MR. PARKER: I asked him if he knew the practice.

WITNESS: So far as the association is concerned, they would so regard it in any returns they might make; but so far as the individual farmer is concerned I would not have any idea.

BY MR. PARKER:

Q. Does your parent association make income tax returns? A. Yes.

Q. So far it has not been taxable? A. No.

Q. Do the member associations each make returns? A. I believe they do.

Q. I do not want any confidential information from those returns, but may I ask you this: Do you show in those returns the amount of these reserves and certificates? If you feel that there is any doubt in your mind, if you think that you are answering something which your members do not want you to answer, I don't press the question. A. It is not a case of that.



Q. It is a case of whether you know or not? A. Yes.  
I presume they are shown.

Q. It would be helpful to know. If you made a return for, say, five thousand reserve certificates and they were held by fifteen hundred men, it would be useful information to the income tax people to check the individual members, and I was wondering whether your company supplied that information.

A. I could not answer that.

The Commission took recess until 2.15 p.m.

.....

Afternoon Session

The Commission resumed at 2 p.m.

H. W. ALLEN (examination continued)

BY MR. PARKER:

Q. I was a little uncertain about the way these two cooperatives work together. The agreement which is attached to the brief of the Alberta is a sample of the agreement between the Alberta Livestock and the assembling agency -- that means the member association? A. Yes.

Q. And under the terms of that agreement the money coming into the Alberta's hands is money to be disposed of, is it not, according to how the directors of the company might determine? A. Yes.

Q. Is there another agreement between the assembling agency and the individual livestock owner who furnishes livestock? A. There is a similar contract.

Q. There does not seem to be a copy of that attached to the other brief.

MR. MILVAIN: We did not have that but we could get copies.

MR. PARKER: It is only for the purpose of avoiding some





confusion. Could you undertake to furnish it?

MR. MILVAIN: Have you any extra copies?

WITNESS: Yes.

BY MR. PARKER:

Q. Perhaps in the meantime you can tell us substantially what that agreement provides. Does it provide that livestock men shall hand over their stock to that company on certain terms? A. Yes.

Q. What are the terms, in a word? A. That the individual shall market all his livestock, with certain exceptions such as local sales and dairy cattle and those covered by special agreement, and that all other stock shall be marketed through the selling agency.

Q. And if he does not do so he automatically ceases to be a member?

A. In that particular case there is no penalty clause.

Q. And he hands it over, with those exceptions, on what terms so far as disposition is concerned?

A. That the selling agency shall market the stock to the best advantage and make return to him, less certain charges for freight, insurance and brokerage, and so forth.

Q. As you tell us in the brief? A. Yes.

Q. But in that case the proceeds do not go to the individual through the Alberta? A. No.

Q. It goes directly through the assembling association? A. Through his own local assembling association.

Q. In some cases it comes back through the parent?

A. Not to the individual. The Alberta Livestock Co-operative does not deal directly with individuals.

Q. At any time? A. No.

Q. I will not press that question any further unless you



feel that there is something you would like to put on the record. A. I don't think there is anything I care to add.

Q. As to your statement, if you will turn to it --

A. I haven't a copy of the statement.

Q. Here is an item of an amount due apparently to the Receiver General of Canada, \$954. What is that?

A. That is for income tax deductions from employees.

Q. It looks like a fairly substantial amount. Does that represent a current month? A. That would be for a current period. I cannot say as to the length of time.

Q. But that is what it represents? A. Yes.

Q. With reference to that item of \$12,254 on the liability side of the statement, deferred final payment certificates outstanding, what does that represent?

A. That would represent the sum that has been allocated to member associations. That has already been allocated and they have received the certificates.

Q. It stands on the books as a liability? A. Yes.

Q. And here is the same amount down here. What is this-- net surplus? A. It is a credit on one side and a debit on the other. This is a deduction -- provision for staff bonus and provision for deferred certificates issued. That is a total deduction of \$14,105.

Q. This is supposed to be total liability?

A. Yes.

Mr. Thorvaldson: Mr. Chairman, there are some of us here who would like to hear some of the evidence. Would the witness mind speaking up? We cannot hear at all.

MR. PARKER: Mr. Chairman, I was endeavouring to get an explanation of certain items in the balance sheet but the witness prefers that I should get it from his auditor, who will be here later. I will let the matter stand for the moment.





Perhaps it is not of great significance.

BY MR. PARKER:

Q. Will you look at page seven of the brief, at the bottom of the page. I quote: "It might be again pointed out that some of the older associations were incorporated under the original Cooperative Act or the Companies Act which require a share capital basis and some pay interest on capital so invested." My accountant suggests this question: Do you pay interest on that capital, and if so how is it handled in your accounts? That is not so in this particular association because you have no share capital.

A. There is no share capital involved in this association.

Q. So that does not apply to this association?

A. No.

THE CHAIRMAN: To what do you attribute the very large increase in this year's business over last year's, in the gross value?

WITNESS: There is a considerable increase in value, in price, as well as a very remarkable increase in volume -- in over-all volume.

THE CHAIRMAN: What has brought that about?

WITNESS: The encouragement which the government gave towards increased production. The volume of production in Alberta has increased, as I have stated. Alberta is a large producer of hogs.

THE CHAIRMAN: Do you export?

WITNESS: The marketing of hogs is pretty well governed by the export side of it.

BY MR. ELLIOTT:

Q. On that point, has there been a large increase in the number of animals grown and marketed by your own members or has there been a substantial increase in new members?



A. It is hard to say. There was a large over-all increase.

Q. As regards the new members, are there some who are now going into hog production for the first time, farmers who did not raise many hogs before and are now raising considerably more, or have they always been hog producers?

A. There is no doubt that a great many farmers were induced to go into the hog business by the action of the government in encouraging it as a result of the request for increased production.

BY MR. VAUGHAN:

Q. What was the nature of that encouragement -- a bonus or subsidy?

A. There was an increase in the price of meat, and the Federal Government conducted a campaign of encouragement to increase the volume of export products to Great Britain.

Q. That would be a general appeal; but was there any financial benefit, any subsidy?

A. Yes; there were bonuses or increases in the price of meat at different times over the past few years.

Q. That would largely explain why the industry is more profitable than formerly?      A. Yes, and coupled with the restriction on the marketing of grain.

BY MR. ELLIOTT:

Q. This question lies perhaps outside the scope of your immediate knowledge, Mr. Allen, and I do not want you to answer unless you feel that you can give an opinion that would be helpful to the Commission. Apparently no stock marketing agency, apart from the Cooperative, is giving us any information. Have you sufficient experience as a farmer to tell us in a very general way, in broad outline, how else farmers might or do market livestock except through the cooperative association?      A. In territory adjacent to a



market like Edmonton, many farmers bring in their own stock in trailers or trucks of their own and take it directly to the packing plant, through no intermediate agency whatever. That applies almost exclusively to hogs. Cattle would be brought in to the stockyards, consigned either to our organization, which acts as a licensed commission firm, or to one of the private firms that are operating on the stockyards. In the areas distant one hundred or two hundred miles from large marketing centres, the farmer is obliged to market either through a cooperative or through a local drover who may be operating a private business or acting as the agent of a packing company. He has the choice of those two forms of marketing at almost any point.

BY MR. VAUGHAN:

Q. What percentage of the business would be done through cooperatives? A. Our organization does not embrace all cooperatives, because there are smaller local cooperative associations that are not affiliated with us; but our association marketed one third of the hogs marketed in the province. If you add to that the volume marketed by cooperatives -- this is just an estimate because I haven't any figures -- I would say that over forty per cent of the hogs were marketed through cooperatives. The rest went either through private firms or directly to the packers. Somewhat the same figures might apply to cattle, though I am not as familiar with the figures in that connection.

BY MR. NADEAU:

Q. What is the relationship between the affiliate members and your particular organization?

A. When we organized the selling agency, this thing had been tried before in the province and owing to economic conditions at that time it was forced into bankruptcy. That





was in the early 30's. When we formed this agency it was felt by the local associations that got together, forming a nucleus, that it would be wise to seek the advice and backing of some of the larger organizations, and it was with that idea that we approached three organizations and subsequently made them fellow members.

Q. You still have financial assistance from them?

A. No.

THE CHAIRMAN: You do not need it now, though you might have then?

WITNESS: Yes.

BY MR. PARKER:

Q. Affiliates have no vote? A. Each one of them appoints a director to our board who has the same powers on the board as any of the other seven directors who are elected by the members.

BY MR. NADEAU:

Q. Is the Canadian Livestock Cooperative a member of your organization? A. No. That is an organization, similar to ours, which has been in existence in Winnipeg since some time in the 20's, and we are related to it in this way: A certain amount of livestock from the eastern side of this province is shipped to Winnipeg and the Canadian Livestock Cooperative in Winnipeg, acting as our agent, sells for us on the Winnipeg Exchange and we have a working agreement with them to that effect. That is all the relationship we have at the present time.

BY MR. ARNASON:

Q. Have you any relationship with the Southern Alberta Cooperative association? A. Not directly, They are not a member of our organization.



Q. Have you any locals?

A. My recollection is that the farthest south we have a local is Okotoks. We have in the south east of the province, in the area north of Medicine Hat, at least one local.

BY MR. THORVALDSON:

Q. Mr. Allen, you say in your brief, at page seven, that the association operates as a marketing agency only. That is quite correct. You are purely a marketing agency? A. Yes.

Q. And your association really has no capital assets, has it? -- that is, of any account. A. No, I don't think so.

Q. Do they own any buildings? A. No.

Q. And as an agency you really do not require any capital assets in any appreciable amount, do you? A. Well, it would depend on what you mean exactly by capital assets.

Q. Well, what is the value of your capital assets at the present time?

A. I would have to have the balance sheet before me.

Q. Approximately. I understand that the value of your capital assets is a very small percentage of your turnover, is it not? A. Yes.

Q. I suppose it is in your accounts, but I have not seen your accounts. Can you give me, within a few hundred dollars or a thousand dollars, the value of your capital assets?

A. Fixed assets, after depreciation has been taken off, \$6,424.

Q. And your working capital, I suppose, is quite small? Approximately what is that? A. Current assets, covering bank balances, from twenty-five to thirty thousand dollars.

Q. Quite a lot of that would be represented by participation certificates or whatever the hold-back is?

A. No part of that \$30,000 would be participation certificates.

Q. Let that go for the moment. You say the association is not organized for profit making and you have explained that





thoroughly -- that you operate at cost and your only deduction is one dollar per car. Isn't that right?

A. That is over and above the ordinary charge that is fixed for handling stock.

Q. Did you not say you operate at cost? Don't you operate at cost, Mr. Allen? You are a pure agency business operating at cost. Isn't that correct?

A. Yes; that is correct.

Q. And as such you are a non-profit making organization. You do not make profits. You say so in your brief. You say it is not organized for profit making but is a service organization entirely. That is correct. I am not trying to trip you up but to get the facts. As such, therefore, you are not a profit making organization? A. No.

Q. You are purely an agency? A. Yes.

Q. Then you say: "While this association is exempt from income taxation under section 4(p) of the Income War Tax Act" and so on. I know you are not a lawyer, but you mention section 4(p). Why do you presume that you have to rely on section 4(p) to be exempt from income tax?

A. I do not know that I can answer that question.

Q. As a matter of common sense, are you not --

MR. MILVAIN: Mr. Allen does occasionally take the advice of his solicitor.

THE CHAIRMAN: Put the question. He does not have to reply.

MR. THORVALDSON: As a non-profit organization you know you would be exempt from income tax anyway without section 4(p).

THE CHAIRMAN: He would have got the opinion of Counsel on that.

WITNESS: I am not familiar enough with it.



BY MR. THORVALDSON:

Q. But if you were advised that section 4(p) of the Income Tax Act had nothing to do with the question as to whether you are liable for taxes or not -- suppose you were advised on reasonably good authority that in doing business as you do you do not need 4(p) -- you would not be very much concerned as to whether 4(p) was in the act or not, would you?

A. Well, as I say, I am not familiar enough with it to even pass an opinion on it.

Q. But if the income tax authorities told you that you were tax-exempt in any event, you would not be concerned about whether 4(p) was in the act? A. Not particularly, if the income tax authorities advised us to that effect.

Q. That is not a matter of law but of common sense. Do your local associations make any profit? They are also agencies, are they not, pure and simple? A. Pure and simple.

Q. And they are not operated for making a profit? A. No.

Q. And if they do not make profits, whether 4(p) exists or not, it would not matter, there would be no profits to tax. That is correct, is it not? A. Yes.

Q. And if the same situation applied to them, if they were advised that they were exempt from taxation anyway, they would not need 4(p)? A. It would not appear so.

Q. You are not organized purely for the purpose of financing their operation? A. No.

Q. You are a handling agency? A. Yes.

MR. MILVAIN: Two questions might be cleared up. I am not certain whether the Commission is clear on the manner in which the surplus is distributed. If you are clear on that point, Mr. Chairman, I do not want Mr. Allen to go over it.

THE CHAIRMAN: Go ahead.



BY MR. MILVAIN:

Q. It struck me when you were giving your evidence, Mr. Allen, in answer to Mr. Parker that there may have been some misunderstanding as to the manner in which there is distribution from the central agency to the assembling agencies and from the assembling agencies to the individual stockyard. Would you mind starting at the top and explaining to the Commission how the distribution is first made from the central agency to the assembling agencies? A. That is, the surplus?

Q. Yes. A. There are two reserves that are distributed: first, the car reserve which is distributed as a three-year revolving fund.

Q. And that car reserve is created by the one dollar per car deduction? A. Yes.

Q. That is distributed to the local association? A. The three-year revolving fund. The general reserve is distributed in the form of certificates which are issued each year to the local associations. Now in regard to the local association, their surplus is somewhat different. Some local associations operate as close to actual cost as possible with a view to not having any particular surplus to distribute. Others have a fairly high handling charge which is always distributed pro rata back to the people who distribute the livestock, on the basis of so much a hundred.

Q. You mentioned too, I think, that the local associations, at least the one with which you are familiar, keeps a ledger account with respect to each of its members?

A. Yes. A ledger account is kept which shows the delivery and consequently the interest of each member in the assets of the local.

THE CHAIRMAN: The amount carried to his credit?





WITNESS: Yes. It shows his actual contribution of 1% stock, and, calculated from that, the interest he has in the assets.

BY MR. MILVAIN:

Q. Following the annual general meeting, when it is decided how much surplus is to be distributed, I suppose a suitable entry is made in each member's account in the ledger? There is an appropriate entry?

A. Yes. The board directs the distribution of so much per hundred annually and that is deducted from his credit in the ledger account.

Q. One other question. Do you know whether or not the income tax officials or inspectors have ever gone around seeking information either from the central or from the member association with which you are familiar?

A. It just happens that the manager at Grande Prairie told me within the last two months that the officials of the Income Tax Department had visited him and asked him certain questions for information as to how our books were kept, and he gave the information and apparently they were quite satisfied.

Q. In other words, there has never been any hesitation about giving the Income Tax Department what information they requested?

A. No, none at all.

BY MR. VAUGHAN:

Q. Is there any instance in which the directors decided how much of the yearly surplus to hold and how much to pay out? How do they determine that?

A. I would say it is based on their general experience over a period of years as to how much it is necessary to hold back. It varies in different associations. Some associations carry their own insurance on livestock in transit and it is



necessary for an association like that possibly to hold back a very considerable reserve to carry that insurance fund which they carry themselves. In the case of other associations, possibly they have a different basis, in which case the packer takes the risk from the time the livestock is loaded on the train and there is no necessity for insurance covering it in transit. That shows a difference between the amount of reserve of one association and another. Some would hold a large amount and others a small sum. They base it on the amount they distribute over a period of years.

Q. It is solely for the purpose of meeting any possible losses? A. And contemplated expansions in business that might create capital expenditure to some extent.

Q. What kind of expansion? A. A local association, the Grande Prairie Association for instance, owns practically all its stockyards. They do not depend on the railway for stockyard facilities at loading points. They own their own sheds, and so on, and each year spend a certain amount, possibly \$1,000 or \$1,500, for expanding the plant or repairing it, and it is an expense of that kind that would be covered.

Q. Do you buy new plants or buildings with that reserve at any time? A. These yards and sheds are generally built as they are needed.

Q. It means that a certain amount of that money is going into assets? A. Yes.

Q. And a certain amount of reserve is used for that purpose? A. Yes.

Q. Over and above losses? A. Yes.

THE CHAIRMAN: A small amount is set aside for educational work?

WITNESS: Yes.





BY MR. ELLIOTT:

Q. Suppose there is a deficit on the part of a particular association, a deficit on the year's operations. How exactly is that taken care of on the books?

A. On the part of the local association?

Q. Yes. A. I am thinking of one of our larger associations, one of the oldest ones in the province. I was at their annual meeting two years ago and they reported a deficit of around \$1,000 on business of a million and three quarters. The way they operate, as I stated before, is to approximate as closely as possible to cost, and while one year they may show a loss of \$1,000, the next year they probably adjust that by making \$1,000. They have created reserves in the past, and apparently they try to eliminate expense by operating as close to cost as they can estimate.

THE CHAIRMAN: Have all your local units been uniformly successful or have there been failures?

WITNESS: The collapse in farm prices in the early 30's put a lot of them into bankruptcy. I would say that half the livestock marketing associations in the province, or close to half, went into bankruptcy or disappeared temporarily.

THE CHAIRMAN: At the present time they are all successful?

WITNESS: I would not say that.

BY MR. ELLIOTT:

Q. Would you attribute their non-success to the management? A. Of course, that failure in the early 30's which I mentioned was due to economic conditions and not to management. It was a collapse in prices.

THE CHAIRMAN: We are a long way from that now.

WITNESS: With the advice available to them now from the



provincial government in the way of supervision and assistance they get from other associations, the only reason now would be bad management.

BY MR. ELLIOTT:

Q. May I pursue one step further the point I was discussing. The surplus is distributed on the books to the credit of the individual members? -- I am speaking now of the local associations. A. Yes. That is practically what is done. I don't know that any of the local associations actually issue certificates showing the member's equity, but they do carry, at least many of them do carry, a ledger account which actually shows his equity in the assets of the association.

THE CHAIRMAN: And if a winding-up took place that would be his share?

WITNESS: That would be the basis.

BY MR. ELLIOTT:

Q. And if there is a deficit, do you know whether it is distributed to the members' accounts in proportion to the marketing that year, or is there a certain percentage deduction from the total credited to the members' accounts? A. I have no knowledge of that.

MR. THORVALDSON: In connection with the briefs that were given by Mr. Winspear this morning, I do not want to refer to a case that is closed, but on page four of the brief there was a reference to the recommendation of the Edmonton Chamber of Commerce in respect of patronage dividends. That reference is contained in about seven or eight lines. Patronage dividends will become an important matter in the study which the Commission will give to this whole subject. and I was wondering, Mr. Chairman, if you would consider recalling Mr. Winspear in order that I might examine him



for a minute or two as to what he means by several generalities that appear in that paragraph.

THE CHAIRMAN: I am perfectly willing, but our time is very limited. If you could make the same point elsewhere I would prefer to pass on to something else.

MR. THORVALDSON: If you would allow me to refer to this brief when the brief for the Independent Dairies is before you, that would be satisfactory.

THE CHAIRMAN: Does the same point come up there?

MR. THORVALDSON: Yes.

THE CHAIRMAN: That will be satisfactory.

. . . . .





INDEPENDENT DAIRY OPERATORS  
In the Edmonton Area

MR. PARKER: We will now take up, Mr. Chairman, the brief on behalf of the Independent Dairy Operators in the Edmonton Area.

MR. O'CONNOR: I renew my application now for the annual statement of the Northern Alberta Dairy Pool.

THE CHAIRMAN: Will you produce your documents, Mr. Milvain.

MR. MILVAIN: I understood we were to present them at the time our brief was called.

THE CHAIRMAN: We won't split hairs.

MR. O'CONNOR: There are certain amendments in our brief which Mr. Winspear will make as we proceed. Because these documents have not been available to us, we have had no way of ascertaining the correctness or otherwise of certain statements and perhaps the Commission will allow me to follow the procedure which was adopted by Senator Farris in Vancouver, and ask whether this information is correct before we go ahead. There is the question of the purchase of the Burns plants. We have them purchased at \$600,000.

THE CHAIRMAN: I have not yet had an opportunity of reading your brief.

MR. O'CONNOR: We do not want to give information that may turn out to be incorrect, but as Mr. Winspear comes to it they will correct him if the figures are wrong.

MR. MILVAIN: At this stage, Mr. Chairman, I feel that I should make the following submission. I have never attempted to waste the time of the Commission and I have had little opportunity to look the brief over. I understood from your ruling or your remarks this morning that the Commission would not allow this inquiry to be used as a means whereby a direct



attack might be made against any particular cooperative.

THE CHAIRMAN: That is undoubtedly correct.

MR. MILVAIN: Nor, did I understand, was it the intention of the Commission to proceed as if this were a trial tribunal to determine whether any particular cooperative is or is not subject to income tax.

THE CHAIRMAN: That is not a part of our function.

MR. MILVAIN: I have not had an opportunity of perusing this brief. I have looked at it only casually and it is largely argument directed absolutely against the Northern Alberta Dairy Pool Limited, for which I appear, and other dairy pools in the province of Alberta. It contains lengthy references to the opinions of Mr. Justice Parlee, who acted as solicitor at that time, when the whole matter was brought before the proper Income Tax authorities and there argued out, and this tribunal should not be again called upon to determine those questions. This is not the tribunal to try those issues. That is something that should go before the Income Tax Department in the proper way. If we are to be placed in the position where we must defend ourselves in determining the question whether we are individually taxable, surely we must have an opportunity of putting in a proper defence, and that defence must be made, and can only be made before the proper tribunal which can try these questions. On that ground it is my submission that this brief is entirely improper and is far beyond the scope of such matters as this commission desires to consider.

THE CHAIRMAN: I have not had an opportunity yet to read the brief.

MR. O'CONNOR: Certainly the matter came before the Income Tax Department, and this Commission was appointed as a result of that application and of others that were





submitted to the department. It must have been because of the very problems that are now before this Commission.

THE CHAIRMAN: We are not concerned with any particular cooperative or non-co-operative in Canada.

MR. O'CONNOR: That is right, sir. But we submit that we have the right to show that there are different kinds and breeds of cooperatives and the manner in which they carry on business, and we propose to use the Northern Alberta Dairy Pool as one of the examples.

THE CHAIRMAN: Go ahead and let us see how much we shall have to eliminate from the brief.

MR. O'CONNOR: There may be sections that are not relevant and in that case we will omit them; but apart from that, dealing with the general principles involved, there is nothing in the world wrong with the brief.

MR. PARKER: In view of what has taken place, if as we proceed it appears that there are parts of the brief that are not relevant and therefore should be withdrawn, a proper note will be made on the record, so that when the transcription is made these parts will not appear.

THE CHAIRMAN: I rather fancy objection will be raised at the proper time.

MR. PARKER: Quite likely.

MR. F.G. WINSPEAR,  
Chairman, Taxation Committee,  
Edmonton, Alberta, recalled.

THE CHAIRMAN: You might agree with your adversary, so to speak, as to what parts of the brief should be omitted.

MR. MILVAIN: That might take some time.

MR. O'CONNOR: I don't think so -- not if my learned friend is reasonable about it.

THE CHAIRMAN: We might take up another case while



Counsel are conferring.

MR. PARKER: The next one is Mr. Milvain's case, which it is alleged is under attack. I suggest, Mr. Chairman, that five or ten minutes might well be spent to allow Counsel to get together.

THE CHAIRMAN: Perhaps we can adjourn for ten minutes.

(After a short recess)

MR. PARKER: I am advised by the two counsel primarily interested that they were not able to agree upon an armistice. Whether they have any suggestions to make I do not know.

THE CHAIRMAN: How do you propose to proceed?

MR. O'CONNOR: I suggest that Mr. Milvain move, at the appropriate time, to strike out any part to which he objects and the Commission can then deal with the objection. There are only two points.

MR. MILVAIN: I will enter my first objection when my learned friend gets to a point to which I take exception.

MR. O'CONNOR: All right.

MR. WINSPEAR: (Reading)

"Brief on behalf of Independent Dairy Operators  
in the Edmonton Area."

"This submission is made on behalf of the undersigned independent dairy operators in the Edmonton area.

"Dairy pools and so-called dairy pools in their advertising and publicity invariably assume that the suggestion that pools should pay income tax on a basis comparable to independent enterprises is opposed to the interests of the farmer, and is, therefore, an attack on the farming community; that is to say, there is an attempt on the part of the pools to express the interests of the pools as synonymous with the interests of the northern Alberta farmer.



"This point of view is strongly contested by the independent operators. They are as rightly interested in the farmer as are the cooperatives or so-called cooperatives. A successful dairy is dependent upon successful and prosperous dairy farmers. In spite of all the inducements which dairy pools or so-called dairy pools, as a result of tax immunity, have been able to offer, in spite of enormous sums paid for propaganda and so-called educational purposes by the pools, the majority of dairy farmers in the Edmonton area still choose to sell their products through independent dairy operators. It is, therefore, submitted that the interests of the farmer and the dairy pool are not necessarily synonymous. Furthermore, independent dairy operators do not resent competition; on the contrary they desire and welcome healthy and free competition, and they believe that those who desire to market their products on a cooperative basis should possess the freedom to do so. The independent dairy operators do urge:

"(a) That private capitalistic organizations obtaining immunity, by the simple procedure of including the term 'pool' or 'cooperative' in their name, should be subjected to income and excess profits taxes on the same basis as those who do not indulge in such subterfuges.

"(b) That cooperatives and private enterprise may and should operate on a basis of equality of taxation and freedom of competition."

"The independent dairy operators believe that cooperatives and private enterprises both possess certain advantages and that the two can live side by side and perform useful functions in the dairy industry.

"The independent dairy operators recognize the necessity





of high income and excess profit taxation as a war measure in the fight against inflation, as a measure of economic control, and as a necessary contribution to governmental revenues. They do submit, however, that every Canadian has the right to expect that the incidence of such taxation fall as equally as possible on all those in competition with each other; and that immunity from taxation of a competitor is bound to seriously affect the willingness with which income and excess profit tax levies are accepted by private enterprise."

MR. MILVAIN: I object to the next part of the brief. It is, as you will observe, a direct attack on the Northern Alberta Dairy Pool.

THE CHAIRMAN: Just a moment. Paragraph 1 is undoubtedly relevant except possibly as to the suggestion at the end that they be taxed. We are not taxing, but this Commission is entitled to investigate the Alberta pools as well as any other. In so far as the investigation is concerned with your methods of doing business, I cannot see that there can be any objection.

MR. MILVAIN: The objection I make, Mr. Chairman, lies in this. It strikes me that it does not assist this Commission-- certainly it does not afford the best assistance -- to have general statements of this kind presented in a brief by chartered accountants and lawyers. It would come far better from the industries themselves to have some man who is closely connected with a business appear before the Commission and explain how that particular business does operate. If that were done I think the Commission would obtain the facts it is seeking. But this is a type of generalization from specialists, we might say, who are connected distantly with the people for whom they speak and whose statements are not of such a nature that they can be properly analysed by cross-examination. They cannot be analysed for the simple reason



that they are generalizations. It is not conducive to any real attempt to get before this Commission the information that is required. So far as this paragraph is concerned, it amounts to a recommendation that the income tax authorities make a particular investigation of a particular dairy pool. We have nothing to fear and we can go into the witness box here; we propose to clear up all these matters. But I am quite sure that this Commission is fully aware that statements of this kind gain great publicity and they are the most difficult to meet. They can be met here but they cannot be met outside.

THE CHAIRMAN: How do you suggest that briefs be controlled -- before they are filed? Hardly.

MR. MILVAIN: It is difficult to do that, but they can be filed after they get here.

THE CHAIRMAN: Suppose you had opened the case instead of your so-called adversaries, would they not be entitled to establish as far as they could the facts alleged in this brief?

MR. MILVAIN: They should establish the facts, yes.

THE CHAIRMAN: Is it very serious, then?

MR. MILVAIN: But they cannot establish them as they are doing here, with a recommendation.

THE CHAIRMAN: A recommendation which has passed us by.

MR. MILVAIN: I know it passes this Commission by, but when publicity is given this type of statement it does not pass by the public. This commission knows what it is dealing with, but the public does not.

MR. FRANCIS: May I be permitted to rise and support the general objection raised by my learned friend Mr. Milvain. I happen to represent cooperatives in six of the provinces of Canada and I feel there is a very great responsibility resting upon me in this matter. We feel that the cause is being prejudiced to some extent by reckless statements which have been





already made at previous sittings as to losses that are being suffered by the Treasury of the Dominion, and when any witnesses are called and submitted to cross-examination those reckless statements are found to be wide of the mark. But, Mr. Chairman and gentlemen of the Commission, the damage may have been done by that time. We therefore submit, very respectfully but most emphatically, that it is of the utmost importance, when witnesses of cooperatives are submitted to cross-examination-- and the witnesses selected are the best in the sense that they know most about the facts -- that the rule governing hearsay should be observed as far as possible. It is a very good rule, and although it cannot be followed to the letter in a public inquiry of this kind, may I also with great deference suggest that it might very well be taken as a guide. We feel very keenly about this, I happen to represent hundreds of thousands of cooperators at this inquiry and they are raising very serious objections to the kind of reckless statements that are getting into the press; because the public does not discriminate at all sharply between what is submitted and what subsequently is found to be fact. I wish to support as strongly as I can the objection made by Mr. Milvain.

MR. O'CONNOR: There are no reckless statements in that paragraph. My learned friend is exaggerating. The Commission will rule as to whether the last three lines should be there, but there is nothing to hurt the cooperatives. Take the question of reserves built up by cooperatives over a period of years because they have not been taxed. If in the course of its sittings the Commission finds that these bodies were not or are not cooperatives, then for my part I would urge that the Commission report accordingly. Then the government is in this position: the department either makes assessment or it



does not. If it fails to make assessment, that is the end of the matter. If it makes assessment, the cooperative appeals and the matter is brought to the courts and then it is determined whether they should be taxed or not. I do not say whether they should be taxed or not. I do not see anything objectionable in that. We are guided entirely by your ruling, Mr. Chairman.

THE CHAIRMAN: What do you ask, Mr. Milvain? Do you wish to have the brief gone over with a fine-tooth comb and everything you object to struck out?

MR. MILVAIN: There are parts of it that should not go in. This particular objection is not nearly as serious as one that will come later. It would probably be perfectly safe if this paragraph one under "1. Recommendations", went in with the exception of the last three lines where it is recommended "that the said pool be then taxed", and so on.

THE CHAIRMAN: I do not see that that really has any place in this investigation, Mr. O'Connor.

MR. O'CONNOR: Very good, sir.

THE CHAIRMAN: Those words might very well be eliminated: "That the said pool be then taxed ....." Is that agreeable, gentlemen?

MR. PARKER: It is clear, Mr. Chairman, that under the terms of the order in council under which your Commission is sitting, you will not be recommending that any particular cooperative be taxed or not taxed. You might have in mind that fifty of them should be and fifty should not; but, as I understand the terms of reference, you will not be making a report with respect to any individual company and will look into individual cases merely for the purpose of illustrating a principle. That is my understanding.

THE CHAIRMAN: Are we agreed that the last three lines





of paragraph 1, on page three, be omitted?

MR. O'CONNOR: So that you will not lose the effect of the brief, Mr. Chaitman, may I suggest that if my learned friend has any other objections to raise he bring them forward now instead of raising them every time he thinks it necessary. That only interrupts the continuity of the brief.

MR. MILVAIN: If you prefer it that way. In that case I refer the Commission to paragraph 4 on page eight. It is numbered 4 and it continues to the foot of page eleven.

MR. PARKER: Do you include the schedule?

MR. MILVAIN: Yes, and the schedule.

THE CHAIRMAN: What is the objection generally?

MR. MILVAIN: My objection is this. The heading, as you will observe, is aimed directly against one particular cooperative. There is submitted with this brief, as schedule 1, an opinion that was written to the Department of National Revenue by a certain solicitor in 1941 respecting a particular dairy pool, and then it goes on, through three pages, to summarize that opinion, all with a direct relation to a matter that was dealt with by the Income Tax authorities away back in 1941.

THE CHAIRMAN: Is that purely an opinion Counsel, Mr. O'Connor?

MR. O'CONNOR: Do you mean, Mr. Chairman, is it merely quotations?

THE CHAIRMAN: Yes.

MR. O'CONNOR: No; it is the essence of the Parlee brief.

THE CHAIRMAN: The paragraph before us begins: "Submitted as schedule 1 to this brief is an opinion supplied to the Department of National Revenue by Mr. H. H. Parlee, K.C. (now Mr. Justice Parlee)....." I do not know that an opinion of





counsel can help us at this time.

MR. O'CONNOR: The position is this, sir. At this time, in 1941, the matter was taken up by the independents with the Department of National Revenue. At the request of the Department this brief of Mr. Parlee's was prepared. He summarizes there the position of the Northern Alberta Dairy Pool, and the essence of it is this: that there are two classes of membership one direct and one associate. Anyone who supplies goods is an associate member and he may not even know that he is a member. These are the facts which are set out, and he then deals with the question of obligation to pay, which is the essence of the inquiry. Our submission is that it is not his opinion; his opinion is contained in the submissions at the end of it. That may or may not be admissible, but certainly this section of the brief, which merely cites facts all the way through until we come to page ten, should, I submit, be accepted. At page ten we say: "It will be observed that Mr. Parlee is of the opinion that" so and so, and we quote him.

THE CHAIRMAN: Any counsel could come before us and file an opinion, but that does not furnish the Commission with facts.

MR. O'CONNOR: No; they are not facts. This is an argument we make, and it is as easy for us to say, "It is our opinion that so and so is the case." I cannot see the slightest objection to these pages.

THE CHAIRMAN: What is your view, Mr. Parker?

MR. PARKER: If I apprehend it correctly, I see no objection to Mr. O'Connor, through his witness, making statements which he believes to be facts, with an opportunity of testing to see whether they are facts. But, as I read the paragraph, that is not what he is doing. He is purporting to summarize what Mr. Parlee stated to be facts; he is not stating the original facts. He is stating what someone else said, and I think



that is the weakness of his position.

THE CHAIRMAN: That is the way it strikes me at the moment, Mr. O'Connor. If this Commission were to have opinion of counsel stated in the brief it would not be very satisfactory, no matter how eminent counsel might be.

MR. O'CONNOR: All we want to do is to put facts before the Commission. With reference to sub-paragraph 1 under "4." on page eight, beginning with the words: "Under the Cooperative Marketing Act, paragraph fourteen sets out specifically the objects or powers of a cooperative association." -- that, I submit, is fact.

MR. PARKER: But you do not have to quote Mr. Parlee.

MR. O'CONNOR: Suppose we strike out the preamble, "submitted as schedule 1 to this brief" and so on.

THE CHAIRMAN: The rest is argument.

MR. PARKER: In so far it purports to summarize the schedule, if the schedule goes the summary ought to go.

MR. O'CONNOR: The witness can accept these views as his own. He is submitting them. That is really the object, but they came so excellently prepared and they are such a good argument that we thought it might be used. As a matter of fact, Mr. Parlee and the witness prepared them together on the first application.

THE CHAIRMAN: So far as this is filed as an opinion of counsel it cannot be accepted. If the witness is prepared to do so, he can establish the facts set out and you can adopt the opinion in argument before the Commission. That will cover the case and possibly will satisfy Mr. Milvain.

MR. MILVAIN: That would probably do it. I shall be calling the manager of the Northern Alberta Dairy Pools Limited.

THE CHAIRMAN: You will meet the case, if it is met, on the facts. Certainly I agree, Mr. O'Connor, that paragraph 4 needs to be amended. How would you suggest doing it? In the





first place, the opinion should be taken out of the brief

MR. O'CONNOR: I propose then to take out the preamble from the words: "Submitted as schedule 1 to this brief" down to the word "Commission". The rest Mr. Winspear will adopt until we come to the words "It will be observed that Mr. Parlee" on page ten. I suggest that we strike that out and substitute the words "I am of the opinion".

THE CHAIRMAN: Who signs this brief?

MR. O'CONNOR: We both sign it, sir. Then on page eleven we strike out the first three lines of (e) and leave it as Mr. Winspear's submission, substituting for those lines the words "I am of the opinion" and taking out the quotation marks at the beginning, "The association" and the quotation marks at the bottom. What appears on page 11A is fact and we want it in because, as a result of that submission, as a result of years of work that followed it, in March 1944 the company passed a by-law giving associate members property rights. We therefore leave that statement there in as much as it fixed the date when we first brought the matter to the attention of the Income Tax Department.

THE CHAIRMAN: In Mr. Winspear's testimony a proper basis will be given for the establishment of what remains?

MR. O'CONNOR: Yes, sir, as well as we can do it. The difficulty is that we expected the manager of the Northern Alberta Dairy Pool would come in. He has personal knowledge of the facts and Mr. Winspear has not the documents on which we base this information. We have made copies of them and I assume the Commission has.

THE CHAIRMAN: Have we reached the point where we can proceed?

MR. O'CONNOR: Yes. I assume there will be some opportunity to ask questions later on, because I would then like to



adopt Mr. Parlee's argument in my own. We have been working in the dark and therefore have had to change pages four and five. We have had them re-typed and have copies for the Commission.

MR. WINSPEAR: (Reading):

"1. Recommendations

"For reasons subsequently submitted herein, the independent operators make the following recommendations:

(1) That this commission enquire into, or cause to be enquired into, the affairs of dairy pools in Alberta, and particularly the competitor of the independent operators in northern Alberta, namely, the Northern Alberta Dairy Pool Limited, with a view to ascertaining whether or not the said pool is a cooperative under the provisions of section 4 (p) of the Income War Tax Act and in accordance with the Rochdale principles; and if it is found, as the independent dairy operators believe it will be found, that the said Northern Alberta Dairy Pool Limited, is not in fact a cooperative.

(2) That section 4 (p) of the Income War Tax Act be amended with a view to clarifying the nature of a cooperative, the terms and conditions contained in the contract of membership, the effecting of mutuality by the elimination of the twenty per cent provision, and the removal of tax exemption for cooperative controlled financing concerns.

(3) That section 3 of the Income War Tax Act be amended to include in the definition of income, the amount placed in reserves by pools and cooperatives each year; that this might be expressed with respect to both producer and consumer cooperatives as the total sales for the period, less:

(a) Cost of sales.

(b) Such expenses as are ordinarily allowed for





income tax purposes to corporation taxpayers.

(c) Patronage dividends paid in cash during the period.

(4) That the act be amended to give the Minister power to define the income of alleged cooperatives not complying with the provisions of Section 4 (p) as amended. Such section might give the Minister power to define the income of alleged cooperatives as:

(a) The spread between the selling price of the product and the amount paid to the producer at the time title to the product is received from the producer, less necessary expenses, or (b) Such other basis as the Minister of National Revenue shall in his sole discretion decide, and in that connection the Minister should have power to define that portion of the selling price which may properly be described as income, whether such portion has been paid to the members or producers in the form of patronage dividends, or otherwise, and in so defining the income the Minister should have power to take into consideration the fair rental value of land, buildings and machinery, owned and operated by the association, the fair return which ought to be derived from labour employed by the association, and or, a fair return on the capital invested in the assets of the association, whether such capital is represented in shares issued, participation certificates, members' deposits, contributions or loans, or in any other form which may in the opinion of the Minister be properly designated as the equity of members in the said assets of the association.

2. Statistics Relating to Pools and Independent Creamery Operators in Northern Alberta

"There are sixty-two creameries in northern Alberta, that is to say north of a line projected east and west from





the city of Red Deer. Of these, twenty-one are operated by the Northern Alberta Dairy Pool Limited, three by the Central Alberta Dairy Pool Limited, one by the Saskatchewan Co-operative, three by local cooperatives, four by Woodland Dairy Company Limited, one by Swift's Canadian Co. Limited, twenty-three by local independents and six are not operating. During 1944 the Northern Alberta Dairy Pool Limited acquired control of thirteen creameries, three cheese factories and two combined creameries and cheese factories, previously operated by Burns & Company Limited. In addition thereto it has purchased during the past five years one creamery from a local independent owner. During 1943 the Central Alberta Dairy Pool Limited purchased creameries at Ponoka and Stettler from Burns & Company Limited.

"The estimated poundage output of the creameries, cheese plants and combined creameries and cheese plants now owned by the Northern Alberta Dairy Pool Limited, for the year 1944 is summarized as follows:

Creameries

Westlock	500,000
Onoway	300,000
Radway Centre	300,000
St. Paul	450,000
Bonnyville	700,000
Andrew	350,000
Daysland	300,000
Vegreville	800,000
Manville	300,000
Vermilion	450,000
Holden	350,000
Edgerton	300,000
Hay Lakes	300,000
Camrose	750,000
Sedgewick	1,000,000
Edberg	300,000
Leduc (Combined)	250,000
Millet (Combined)	350,000
Wetaskiwin	1,250,000
N.A.D.P. (Main Plant)	2,700,000
N.A.D.P. (Burns Plant)	900,000
Total	<u>12,900,000</u>



Cheese Factories

Thorsby	200,000
Bawlf	200,000
Round Hill	250,000
Bruederheim	250,000
Leduc (Combined)	250,000
Millet (Combined)	<u>300,000</u>

Total	<u>1,450,000</u>
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During 1943 the total production in Alberta was 38,652,027 pounds of butter and 2,563,317 pounds of cheese. In the actual Edmonton area the retail sales of pasteurized milk are still largely in the hands of independent creameries; during 1944 approximately 14,315,564 quarts of milk were sold in Edmonton, and of this the Northern Alberta Dairy Pool Limited sales were approximately 2,700,000.

### "3. Loss of Governmental Revenue

"Whereas most of the independent operators, as public companies, submit annual financial statements to all of their shareholders and file financial statements with the companies branch of either the province of Alberta or Dominion of Canada to make them available for public inspection, they observe that the Northern Alberta Dairy Pool Limited does not supply its members with statements, nor does it file financial statements with the Registrar of Companies. Under the provisions of the Cooperative Marketing Act it files financial statements with the supervisor of Cooperatives of the Province of Alberta, but these statements are not available for public inspection. As a result it is difficult for the independent operators to obtain reliable data as to the financial position and the operating results of the Northern Alberta Dairy Pool Limited. However, in June 1940 the Northern Alberta Dairy Pool Limited, announced that during the twelve years of its existence it had paid \$468,437.00 to its 8,700 members. If to that the cash dividends of 1940 in the amount of \$65,765.72 are added, it will be found that up to December 31, 1940, it had paid





to members out of tax-free profits the sum of \$534,202.72 as well as "ploughing back" a net worth of \$256,029.86.

"Furthermore, there is reason to believe that for the year 1942, this organization made final payments and additions to its reserves, and issued participation certificates in an amount exceeding \$260,000.00. It is also known that since 1942, with substantial increases in dairy production and increases in prices, the profits of dairy operations have tended to increase. During the past year the so-called pool purchased eighteen dairy plants from Burns & Company Limited, paying for them approximately \$600,000.00 in cash. It is, therefore, reasonable to suppose that if the Northern Alberta Pool Limited were taxed on a basis comparable with private enterprise, it would be paying somewhere between \$150,000 and \$200,000 a year in income and excess profits taxes.

"On the other hand one of the independent dairies on whose behalf this submission is offered, made profits slightly in excess of \$97,000 during the 1943-44 period, paid a total of \$68,000 in tax to the Dominion government and had about \$29,000 left. Another dairy in the 1944 period made a profit of approximately \$42,000, paid taxes of almost \$30,000, and had about \$12,000 left, exclusive of the refundable portion.

"It is submitted that the loss of governmental revenue is enormous and is cumulative in its effect. Firstly, there is the loss arising by virtue of the immunity of the so-called pools. Secondly, there is the pressure of unfair competition which will ultimately depress the operating profits of the independent organizations. Thirdly, there is the increasing tendency for independent operators to discontinue business and sell out their plants to the so-called pools.

"The net income after tax of one of the independent operators referred to, comprises a return of five per cent on



shareholders' invested capital. The situation in its effect on governmental revenue may be expressed in this way: independents are in effect operating with profits frozen to a fixed return on capital. This fixed return may be either their pre-war level of profits less thirty per cent, a percentage on capital of between five per cent and ten per cent as set by the Board of Referees under the Excess Profits Tax Act less thirty per cent, or such other standard profit as may have been allowed by the Board of Referees less thirty per cent. Any profits which the independents make in excess of this fixed return are paid to the treasury of the Dominion government in the form of income and excess profits taxes. Cooperatives or so-called cooperatives may make a fixed return on capital, but any profits which they make in excess thereof are paid to their members in the form of patronage dividends, or utilized to create reserves for expansion and increase their facilities, or for propaganda (so-called educational) purposes.

"(1) Under the Cooperative Marketing Act, Paragraph 14 sets out specifically the objects or powers of a cooperative association. It will be noted that its objects or powers are not essentially different from those of an ordinary corporation which admits it makes gains and is liable for taxation.

"(2) The memorandum of association of the Northern Alberta Dairy Pool Limited, provides that the association is to have no share capital and the interest of each member of the association is to be the same as every other member, but this was amended on March 17, 1939 to read:

"The interest of each member of the association is not the same as that of every other member, but shall be determined from time to time by the pro-



portion which its holdings of reserve share certificates shall bear to the total amount of reserve share certificates then outstanding."

It is submitted that it is fundamental to the Rochdale principles, that in a true cooperative every member must have an equal interest with every other member.

The memorandum of association was further amended to provide that upon any distribution of the assets of the association by voluntary winding up:

"Only members who are holders of one or more reserve share certificates shall participate in the proportion which his holdings of reserve share certificates bear to the total amount of reserve share certificates then outstanding."

In other words a member of the Northern Alberta Dairy Pool Limited, is a capitalist in the same sense as a shareholder of a corporation is a capitalist.

(3) On April 5, 1940 an even more significant change was made in the charter of this organization. At that date the membership was divided into two classes:

'(a) Contract members - those who only shall enjoy and have voting and property rights in the association.

'(b) Associate members - being an annual membership only.'

The independent operators desire to point out the significant features of an associate membership.

'(a) Under the memorandum of association, associate members shall be entitled to receive and participate in any dividends disbursed or distributed by the association during the year in which they are members, but shall not be entitled to or have any property rights in the association and shall not be entitled to vote or take part in the election of a delegate to any general





meeting of the association. In other words, associate members do not possess property rights, are paid only for the shipments of butter-fat which are made during the current year, and are not entitled to vote.

'(b) It is provided under section 6(c) that any person engaged in the production of dairy or poultry products for marketing in the province and wishing to market same on a cooperative basis, shall upon delivering any such product to the association in any year, be deemed to be an associate member for that year without paying any membership fee and without signing the current standard marketing contract.

"I am of the opinion that such an associate membership in the pools, is not an actual contract of membership, does not carry with it the obligations of membership, and is in effect a subterfuge. Yet the independent dairies have reason to believe that for a number of years the greater part of the business of the Northern Alberta Dairy Pool Limited has been carried on with so-called associate members.

"(c) Attention is also drawn to the broad powers which are given to the directors to expel anybody from membership and to deny them their property rights.

"(d) It is pointed out that the association is under no obligation to pay to any associate member, any dividend except such dividend as may be paid during the year, and that consequently, the Northern Alberta Dairy Pool Limited whether or not it makes any such payments, is not an association within the meaning of Section 4(n) of the Income War Tax Act.

"I am of the opinion The Association commences



with capital acquired from the government with the intention of being and remaining cooperative in its activities. Gradually the Association develops strength, pays off its indebtedness, sets aside reserves and, by reason of being favoured, attains a position where it may successfully meet competition from private Companies. It has no taxes to pay and, in general, occupies a favoured position with governments. Having accumulated reserves the Association becomes ambitious to extend and to develop. The members who originated the Association desire to expand; they appeal to all producers to deliver their products to the Association. This state of affairs continues until it becomes realized that the Association is abandoning the cooperative idea and has developed into an ordinary trading concern, which has abandoned cooperative principles.

"In order to escape from this situation the amendment (Schedule B-2) of April 5, 1940, is made to the Memorandum. The public, to whom they have appealed for support and obtained products for some time, are by this amendment declared to be 'Associate Members' having the limited right only of participating in dividends for the current year only in which the 'Associate member' is such a member."

"Mr. Parlee's brief was submitted to the Department of National Revenue in 1941.

"On the 9th of March, 1944, by an extraordinary resolution the memorandum of association was further amended in an attempt to restore the property rights to the associate members and provide that the associate members should have such property





rights since the 5th of April, 1940, i.e., the date upon which the memorandum was amended to provide for two classes of membership.

"It will be noted that an associate member is still not entitled to vote or take part in the elections.

"'6. (c) 3. An associate member to the same extent as an ordinary member shall be entitled to receive and participate in any initial, interim or final payment, or other distribution of the proceeds of the proceeds of sale of the products handled by the Association afterpayment of operating costs, and after setting aside such sums for a reserve as the directors may deem advisable, and shall have and enjoy, and shall be deemed to have had since the 5th day of April, A.D. 1940, the same property rights, but an associate member shall not be entitled to vote or take part in the election of, or act as, a delegate to any general meeting of the Association."

"In spite of this 1944 amendment, the situation still obtains that a so-called associate membership does not carry with it the necessity for application and acceptance, nor the privileges and responsibilities which ordinarily pertain to the term.

"It should also be noted that in the amendment to the articles dated the 26th of March, 1942, it was provided by section 44 of the Resolution that if a farmer ceased to market or deliver annually all his dairy products to the association then the directors may in their unlimited discretion cancel his membership in the association and thereupon all the rights and interests of the member in the association or property thereof shall be cancelled and at an end.

"A farmer delivering products could become a member without knowing it and then because he did not continue to deliver products his membership could be cancelled by the directors in their unlimited discretion and all his rights and interests in the association and of the property thereof would be at an end.



"In the Saskatchewan Wheat Pool case (1929) it was held that the pool or association, may be likened to an agent or factor who intervenes in the sale of goods and who conveys the same which are in the process of exchange, between the producer and the purchaser. The Wheat Pool was at that time functioning wholly with its own members and was, in the opinion of the learned judge, performing an agency function in distributing the products of its membership but without changing their form.

"The Northern Alberta Dairy Pool Limited, however, purchases and acquires title to milk and cream, manufactures and processes these products, and then gives to customers, title to such products as butter, pasteurized milk, homogenized milk, and ice cream. Surely, under such circumstances, even if the organization were purchasing wholly from its own members (which it is not), and even if its members were members in a proper and reasonable sense of the term (which they are not), it could still not be said to be functioning as an agent or factor between producer and purchaser. Under its present scale of operations and with sales which are said to be in excess of three and one-half million dollars per year, it is submitted that the Northern Alberta Dairy Pool Limited, must on occasion buy butter and other products from those who are not members, as well as from its competitors. This is a necessary attribute of the dairy business, customers must be supplied, inventories hedged. The independent operators know this to be true because they have in fact, sold considerable quantities of manufactured products to the so-called dairy pool, and the following statement at the annual meeting of the Northern Alberta Dairy Pool Limited, as reported in the Cowbell in April 1938, is significant:

"It was asked whether butter purchased of \$465,909.43 as shown on page 9, included the produced butter within





the Northern Alberta Dairy Pool, or other butter purchased outside of that. It was explained that the amount shown was butter purchased outside the Dairy Pool of the Edmonton plant, from other branches, and also from privately owned plants who sell their butter to Northern Alberta Dairy Pool.'

In the operations of this so-called pool during the year ending December 31, 1940 it is known that of \$887,000, constituting purchases of butter and butter-fat, \$331,000 represented purchases of manufactured butter other than butter fat purchased from its contract and associate members. With thirty-seven per cent of its total purchases made in the form of manufactured butter, and in that year fifty-two per cent of the remainder made from other than contract members, it is obvious that this organization, posing as a cooperative, assuming for itself the privileges and immunities of a cooperative, is nothing more than a private manufacturing enterprise.

"It should be kept in mind that under Section 4(p) of the Income War Tax Act, a cooperative must:

"Market the products of the members or shareholders of such cooperative organizations under an obligation to pay to them the proceeds from the sales on the basis of quantity and quality less necessary expenses and reserves.'

The Northern Alberta Dairy Pool Limited, issues participation certificates to its members based on the quantity and equality of the goods supplied, but the certificate does not carry any obligation to pay of any kind, and is declared to be non-negotiable, No action can be taken to enforce payment at any time - payment of some of these participation certificates have been made years after they were issued. Others might at the





discretion of the directors have been paid more expeditiously.

"The Northern Alberta Dairy Pool Limited, is known to have made substantial purchases of victory bonds. The average Canadian, in buying victory bonds, recognizes that the interest on the bonds will be subject to income and excess profits taxes. Surely it is apparent that income from the investment of reserves, which must of necessity arise if operations on the scale of the Northern Alberta Dairy Pool Limited, are not properly immune from taxation. The situation is almost incredible; as such organizations become larger and larger, they have more and more reserve funds to invest. To-day they are in a privileged position as compared with other Canadians in that they are obtaining tax-free securities.

"The Northern Alberta Dairy Pool Limited, in its so-called patronage dividends allegedly returns to its members part of the selling price of manufactured products. This selling price, which is allegedly divided in the ratio of producer patronage, comprises earnings not only on commodities purchased, but earnings derived from the employment of labour and the rental value of land, buildings and machinery. Furthermore, the so-called patronage dividends include earnings from reserves invested in securities, and from trading in finished products. Surely such earnings cannot be properly described as an increase in the purchase price of the products purchased.

##### "5. Danger of Monopoly

"Reference has previously been made in this submission to the substantial sums of tax-free profits which have been made by the Northern Alberta Dairy Pool Limited, whilst on the other hand the independent operators are limited to earning a fixed return on capital. On the other hand, the so-called pool has a large investment in assets and has large reserves available for investment and expansion. That the expansion is



substantial and has monopoly as its aim, may be gleaned from comments in the report of officials of the Northern Alberta Dairy Pool Limited, at annual meetings. The Cowbell, April 1938 (later renamed the Co-op. News) in reporting the annual meeting of the Northern Alberta Dairy Pool Limited, stated:

"The address of the president expressed pleasure at again acting as an official in an organization -- which is now worth thousands of dollars, such expansion having started from no cash investment on the part of the owners."

The Directors' Report, March 1939, as contained in the Cowbell, stated:

"We started without the members putting up a dollar. We borrowed under the Cooperative Marketing Act of 1924 sufficient to permit a start."

This concern which so started, had at December 31, 1942, a members' equity of over \$400,000 after making reserves for depreciation and sundry purposes in amounts in excess of \$270,000. Since 1942 it has acquired eighteen plants from one of its competitors, Burns and Company Limited, for a consideration approximating \$600,000.

"The monopolistic tendency of the organization is illustrated by the comments of its general manager, as reported in the April 1944 issue of the Co-op. News:

"The eight butter and cheese plants we purchased from Burns & Company Limited, are located south and east of Edmonton. With the purchase of these plants we now control all the territory on the C.P.R. line south to Wetaskiwin and east to the Saskatchewan border."

"In March 1944, C.E. Christenson, an official of the Pool, stated:

"We alone should next year produce between twenty per





cent and twenty-five per cent of the provincial production.'

It should be remembered that this is only one of three dairy pools functioning in prescribed areas.

"The danger of monopolistic control by these so-called cooperatives is imminent and significant, because:

- (a) The independent operators are precluded after paying a reasonable return on capital to their shareholders from creating reserves for expansion. The dairy industry needs such reserves because of rising prices for plant replacements and because of the rapid obsolescence of dairy equipment.
- (b) Independent operators are subject to the control of the Tax Department with respect to advertising expenditures, salaries and wages paid, and other expenses incurred. Tax immune enterprises, such as the Dairy Pool, are not subject to such controls, and may and do make, tremendous appropriations for so-called cooperative education but which are in fact advertising.
- (c) Furthermore, the independents are now facing all the disabilities of enterprises with restricted capital, facing the competition of large and heavily capitalized expanding enterprises; large enterprises which as illustrated by the foregoing statements, are committed to a policy of expansion to the point of monopoly.

"It remains then to be considered whether it is in the interests of the citizens of Alberta, its dairy farmers and its consumers, that this inevitable march towards monopoly should be aided by tax exemption. The independent operators submit that their competitors should be subjected to the same imposts of income and excess profits taxation for the following reasons:



"(a) The independents are in many instances small local enterprises arising from the investment of local capital. They submit that they should not be driven from business by government action through invisible subsidy.

"(b) Cooperatives and so-called cooperative enterprises, tend to batten on established industries. By their very nature they are expected to return to their member patrons, the excess of the selling price of the products over cost. This concept in itself is opposed to the taking of risk and to the investment of capital in remote areas. Capital has in the past, taken the risk in the dairy industry, and capital may play an important function by taking risk in the future. Alberta is still a frontier province and it is in the interests of the citizens of Alberta that the investment of private capital should rather be encouraged than discouraged.

"(c) Monopoly is opposed to the interests of both the producer and the consumer. With private enterprises in competition with each other and with cooperatives, efficiency in operations is obtained and a standard of service to both the farmer and the consumer is maintained. Industries operated on a monopolistic basis, must of necessity be subject to governmental control. Whereas it is possible to exercise such control with respect to the consumer's wants and the prices to be charged to him, it is extremely difficult to exercise such control with respect to the producer's wants and the services to be supplied to him. The independent operators do, therefore, urge that the principles enunciated by the Turgeon Commission, that cooperatives and private enterprise be permitted to operate on a basis of free competition is in the best interests of the citizens of Alberta. They submit that such fair competition cannot exist while cooperatives or so-called cooperatives, are immune from income and excess profits taxation.





"6. Conditions have Changed Since Tax Immunity Granted

"The independent dairy operators raise the question, 'Could any group of citizens under existing conditions with their country at war and with existing rates of taxation, expect to obtain legislation through the Dominion Parliament which would grant them the tax immunity now enjoyed under Section 4(p)?'

"Section 4(p) was passed in its original form in 1917. At that time the rate of taxation for corporations was six per cent for income in excess of \$3,000. The exemption of cooperatives was no doubt considered reasonable as a measure of invisible subsidy to an infant industry. Now, however, income tax and excess profit taxes on corporate incomes range from forty per cent to eighty per cent and what might then have been considered a reasonable concession, has now in fact become a weapon of competition oppressive to privately-invested capital.

"Elsewhere in the world, in England and Scandinavian countries, tax immunity of cooperatives has gradually become a national problem which has had to be faced and solved.

"7. Taxation of true Cooperatives

"Whereas the independent dairy operators in Alberta are not primarily concerned with the operations of true cooperatives, since they are satisfied that their main competitor is not in fact a true cooperative, they recognize that the taxation of true cooperatives is a problem elsewhere in Canada and may well become a problem to them. They recognize the administrative difficulties of defining the income of true cooperatives, and they therefore recommend that, such cooperatives should be taxed on that portion of their income which is not returned to their members in cash each year, and that true cooperatives





should be taxed on investment income and non-trading profits.

"8. Conclusion

"The independent operators reiterate that they are not motivated by any spirit of hostility to the cooperative movement. They submit that the interests of the farmer are not necessarily the same as the interests of the so-called cooperative. They strongly urge that no concern should obtain tax immunity by simply including the name 'pool' or 'cooperative' as part of its name. They urge that the right to carry on manufacturing activities without the investment of fixed capital with a fixed return, is contrary to the principle of mutuality. They urge that true cooperatives which withhold earnings and invest them in securities and other reserves, should be taxed on the amount of such earnings. They urge that the interests of the people of Alberta will be served by the continuance of private enterprise in competition with cooperatives, so that initiative in the investment of capital will not be discouraged, so that the democratic system of check and balance may continue, and so that producers and consumers may choose with whom they will deal.

<u>Sangudo Creamery,</u> <u>per "W. Gilchrist"</u>	<u>Barrhead Creamery,</u> <u>Per "W. Holman"</u>	<u>Evansburg Creamery,</u> <u>per "O. Wolff"</u>
<u>Athabasca Creamery,</u> <u>per "Harold Smith"</u>	<u>Vilna Creamery,</u> <u>per "J.R. Sweeney"</u>	<u>Elk Point Creamery</u> <u>per "W. Dale"</u>
<u>Fertile Valley</u> <u>Creamery</u> <u>Per "L.W. Kofoed"</u>	<u>Bluffton Creamery</u> <u>Per "E. Montalbetti"</u>	<u>Bashaw Creamery,</u> <u>per "W. Breum"</u>
<u>Jasper Dairy</u> <u>per "S. Huff"</u>	<u>South Edmonton</u> <u>Creamery</u> <u>per "W. Hanson"</u>	<u>Grand Centre Creamery</u> <u>per "K.W. Toppenburg"</u>
<u>Edmonton City Dairy</u> <u>Limited,</u> <u>Per "Murray Hamilton"</u>	<u>Woodland Dairy</u> <u>Limited</u> <u>per "E.T. Love"</u>	

Edmonton, Alberta,  
January 17, 1945."

. . . . .



THE CHAIRMAN: The list of names given at the end are those of the organizations represented by you?

WITNESS: By myself and Mr. O'Connor, sir.

MR. O'CONNOR: I would call the attention of the Commission to the Cooperative Marketing Associations Act which covers that part that Mr. Winspear dealt with.

THE CHAIRMAN: What is the reference?

MR. O'CONNOR: The Cooperative Marketing Associations Act, chapter 251 of the Revised Statutes of Alberta, 1942, sub-paragraph 2 of section 19: "The directors shall have power from time to time, by resolution, to pay over to the members of the association such part of the purchase price of the commodity or commodities so sold as they shall deem advisable, but such resolution shall not be deemed to create a debt due or payable by the association to the members or any of them."

MR. PARKER: In dealing with this brief, it seems to me there are two ways of proceeding. One would be to ask the witness how many of the facts he alleges are within his personal knowledge -- since they are of no particular value unless they are proven in some such way -- and the other method in view of what has already taken place on the part of counsel representing these companies and the Northern, might be for Mr. Milvain to examine the witness on such points as might occur to him wherein the facts alleged are, he thinks, incorrect.

THE CHAIRMAN: Does Mr. O'Connor propose to examine the witness?

MR. O'CONNOR: No, Mr. Chairman.

MR. PARKER: If the facts as alleged are correct, and if Mr. Milvain so advises, there is no point in my taking up the





time of the Commission testing their authenticity.

MR. MILVAIN: I would much prefer to have the witness examined in the usual way by Commission Counsel.

THE CHAIRMAN: It would be purely formal, Mr. Milvain.

MR. MILVAIN: I understand that. If there is nothing further that Commission Counsel wishes to say, I would like to examine the witness, but I would prefer not to do it until to-morrow. I could save a great deal of time.

THE CHAIRMAN: Mr. Parker might put a question to the witness establishing the brief in general and we could adjourn until to-morrow. It is evident that we have a great many more briefs to deal with. Would Counsel object to meeting earlier to-morrow.

MR. O'CONNOR: I am agreeable.

MR. MILVAIN: So am I.

BY MR. PARKER:

Q. Mr. Winspear, could you recite in a few words which of the facts -- I know there are many of them -- are within your own knowledge and which under oath you are prepared to tell the Commission you know are so -- or is that possible? Is it such a mixture of that which is within your own personal knowledge and that which is not, that you cannot do that?

A. The facts respecting the constitution, memorandum and articles of association I have myself examined. The facts respecting the statistics,--

Q. Let us take it page by page.

A. The facts in regard to the sixty-two, in section 2 on page four, are facts that have been given me by my clients.

Q. Which one of them? A. Mr. E.T. Love and Mr. Empey.

Q. They are not taken from any government returns?

A. I don't believe so.



Q. To that extent therefore it is purely heresay evidence.

A. Yes.

Q. That is the only authority you can give? A. Yes.

Q. That is on pages four and five?

A. Yes. With reference to the operations of the dairy pools, contained in section 3 on page six, I think I make myself clear in the brief as to what the situation is. We have not had made available to us any financial statements of the Northern Alberta Dairy Pool, although we have asked them for such statements, and consequently the only information I have been able to obtain is from public papers and hearsay.

Q. In the middle of page six you make this statement: "However, in June 1940 the Northern Alberta Dairy Pool Limited announced" and so on. How did they annount it, through what channel?

A. Through "Co-Op News", which was then "The Cow Bell".

Q. Is that their official paper? A. It says so on it.

Q. Is it an editorial comment, or has it the same degree of accuracy which all newspaper reports have?

A. That is where I got it.

Q. It is taken from their paper? A. Yes. There is a lot of this information taken from that paper.

Q. As regards the statistics on page seven, is that all taken from there? A. I believe generally that is true of most of the statistics.

Q. You have at the moment no other source on which you are relying? A. Other information has been supplied to me from time to time by my clients in regard to things they have heard.

Q. I am talking about things you can swear to.

A. I cannot swear to any of that information.

Q. You say that there is an increasing tendenoy for independent operators to discontinue business and sell out to



so-called pools. On what authority do you make that statement?

A. You mean the source of that?

Q. You will find it on page seven in the third paragraph: "Thirdly, there is the increasing tendency for independent operators to discontinue business and sell out their plants to the so-called pools."

A. I make that statement on the strength of the statistics I present. During 1943 they bought 188 from Burns and Company and one independent dairy.

Q. Do you know, in the same time, how many independents transferred to other owners not cooperatives?

A. How many cooperatives sold out?

Q. How many independents sold out to other independents.

A. I do not know.

Q. As far as you know there may have been a great many more? A. As far as I know.

MR. O'CONNOR: Do you mean in Northern Alberta?

MR. PARKER: In the area you deal with and in the province generally.

WITNESS: It must have been a tremendous turnover on the basis of 628 in Northern Alberta.

BY MR. PARKER:

Q. Have you any knowledge as to how many were transferred? A. No.

Q. In the next paragraph we have some more percentages. A. Respecting the independent dairies?

Q. Yes. A. Yes; those are in my personal knowledge.

Q. Those portions of the brief wherein you deal with the various amendments to the memorandum -- you have checked those? A. Yes.

MR. O'CONNOR: He did not do it personally.





MR. PARKER: Who did?

MR. O'CONNOR: I did in part.

WITNESS: He is referring to the comments made by Mr. Parlee.

MR. PARKER: No; Mr. Parlee is not making any comments now. That is out; you are making the comments.

MR. O'CONNOR: Mr. Winspear knew that himself.

BY MR. PARKER:

Q. Do you understand my question? Have you examined the statements you have made concerning the various amendments to the Northern Pool's memorandum? Have you checked them so as to verify what you say? A. Yes.

Q. On page eleven there is this statement: "The association commences with capital acquired from the government with the intention of being and remaining cooperative in its activities." Are you referring particularly to the Northern Pool? A. The Northern Alberta Dairy Pool.

Q. Do you know that that is so? A. It is a matter of opinion.

Q. What is? A. It is my opinion that the association commences with that intention.

Q. The three lines just above the passage that I have quoted have been struck out, you remember?

A. I am glad to answer, in spite of that, that it is my opinion.

Q. Then what do you base that opinion on, that the Northern Dairy Pool commenced with capital acquired from the government? Have you knowledge of that? A. Oh yes, from the information I have been able to read in Co-Op News and in the previous statements I have already read. They started without putting up a cent, on loans made under the Marketing Act. I have already quoted it in the brief.



Q. Whom are you quoting, a responsible official of the company? A. Yes, from the president's address.

Q. Does he say it was started on government money?

A. Yes, He said "We started without the members putting up a dollar; we borrowed under the Cooperative Marketing Act of 1924 sufficient to permit a start."

Q. That means money borrowed from the government?

A. Yes.

Q. Where you speak about resolutions of the company, you had a chance to examine them and feel safe in accepting them?

A. That information was obtained by Mr. O'Connor's office.

MR. O'CONNOR: It was filed with the Commission.

BY MR. PARKER:

Q. I want to make sure it has been checked, that is all. Then on page twelve there is this statement: "The Northern Alberta Dairy Pool Limited, however, purchases and acquires title to milk and cream...." What is the evidence of that? Do you find it in the terms of the agreement, or on what authority do you make that statement?

A. I make it on the observation of their methods of operation; that is to say, they acquire one product and sell something else: "The Northern Alberta Dairy Pool Limited, however, purchases and acquires title to milk and cream, manufactures and processes these products, and then gives customers title to such products as butter, pasteurized milk, homogenized milk and ice cream."

Q. Perhaps you do not follow me. What I want to distinguish between is this: Do they purchase and acquire title or do they act on an agency basis? A. It is my opinion that they operate on an agency basis.

Q. You do not state it as an opinion but as a fact.

A. Well, this is a mixed presentation of fact and opinion.





Q. Then it is not to be taken as fact because you do not know that it is? A. It is my opinion.

Q. Would you mind telling me this. There are some more facts on the page which should be changed to opinions, if you will glance at that page. Are there any other statements of fact that are in reality not facts but simply expressions of your own opinion? A. I don't say they are facts; they are opinions.

Q. Can they be both at the same time? A. Possibly, yes.

Q. About the middle of the page you make this statement: "Under its present scale of operations and with sales which are said to be in excess of three and one half million dollars per year, it is submitted that the Northern Alberta Dairy Pool Limited must on occasion buy butter and other products from those who are not members, as well as from its competitors." Who is the mysterious person who says that?

MR. O'CONNOR: It is in their statement.

MR. PARKER: Let the witness tell me.

WITNESS: I believe I got it from Co-op News.

BY MR. PARKER:

Q. You think you got it there? A. I think so.

Q. Do you know? When you say "It is said", the value depends on who said it. You cannot help us on that? Then on page thirteen there appears this statement: "The Northern Alberta Dairy Pool Limited issues participation certificates to its members based on the quantity and quality of the goods supplied -- "Do you know that that is so? A: Yes.

Q. "-- but the certificate does not carry any obligation to pay of any kind, and is declared to be non-negotiable. No action can be taken to enforce payment at any time -- payment of some of these participation certificates have been made years



after they were issued." On what authority do you make that statement? A. On the authority that this brief was prepared jointly by Mr. O'Connor and myself, and that is his opinion and it is mine.

MR. O'CONNOR: It is based on the section I have just read to the Commission.

BY MR. PARKER:

Q. You say that payment of some of these participation certificates has been made years after they were issued. Do you know that to be so? A. Yes.

Q. Then you say: "Others at the caprice of the directors have been paid more expeditiously." A. I wish to change the word "caprice"; I would say "others might at the discretion of the directors".

Q. You have properly made that amendment. Then you go on to say: "The Northern Alberta Dairy Pool Limited is known to have made substantial purchases of Victory bonds." It is known by whom -- by you? A. Yes.

Q. You have sources from which you know that to be so? A. Yes.

Q. Turn to the statement on page fourteen in the middle of the second paragraph. Is that a matter of opinion or what is it? You say: "This selling price, which is allegedly divided in the ratio of producer patronage, comprises earnings not only on commodities purchased, but earnings derived from the employment of labour and the rental value of land, buildings and machinery." Is that a matter of opinion? A. Yes.

Q. One more question. On page seventeen there is a statement which I wish you would explain. You will see it about a third of the way down. You say: "This concept in itself is opposed to the taking of risk and to the investment of capital in remote areas. Capital has in the past taken the risk in the



dairy industry, and capital may play an important function by taking risk in the future." Is the risk which you are talking about there risk in relation to taxation, and do you lay emphasis on that? A. Yes; and I lay emphasis on it in this sense, that the present source of taxation coming as it does from the independent operator, it is well that he should be given all necessary encouragement to remain in business. If the independent operator is precluded from operating in those sections in which the risk is reduced to the minimum, it is not to be expected that he will operate in areas where the risks are heavier, and ultimately that will have a very significant effect on taxation and revenue.

Q. Is capital entitled to some return for the risk involved in the investment of it in a plant of this nature? A. Yes. Capital is entitled to make its choice whether it will take the larger risk, with the expectation of a greater return, or the smaller risk with the expectation of a smaller return. But if it is precluded from making its choice, or if, after taking the risk and establishing itself on such a basis that that risk is reduced to the minimum, something else is allowed to put it out of business, then the incentive of the capitalist is lost.

The Commission thereupon adjourned until January 26, 1945, at 9.30 a.m.

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Friday,  
January 26, 1945

The Commission met at 9.30 a.m.

MR. PARKER: When the Commission adjourned last night I had finished any questions I had to ask of Mr. Winspear, but I understood that Mr. Milvain might wish to question him.

Mr. F. G. WINSPEAR, Recalled:

BY MR. O'CONNOR:

Q. I wonder if I might ask the witness one or two questions first. We have three briefs. Have you had an opportunity, Mr. Winspear, of going over the financial statements presented by the Northern Alberta Dairy Pool? A. Yes.

Q. At the top of page seven there is an estimate. I quote: "It is therefore reasonable to suppose that if the Northern Alberta Dairy Pool Limited were taxed on a basis comparable with private enterprise, it would by paying somewhere between \$150,000 and \$200,000 a year in income and excess profits taxes." You had an opportunity of examining the statements from 1940 to 1943. If the company had been taxed on the same basis as private enterprise, what would the tax have been for each of these four years?

A. Assuming that the taxable income would be the same as the income reported in the financial statements, that is to say, assuming that the expenses would all be deductible for income tax purposes and there would not be any income included which would not be properly described as taxable income, the taxable income on that basis for the year 1940 would be \$68,654; for 1941, \$140,480; for 1942, \$207,554; and for 1943, \$268,442. In other words, the total for the four years, exclusive that is of the refundable portion, would be \$685,130.

Q. If the same trend continued for the year 1944 that appears in these statements from 1940 to 1943, what would you estimate the 1944 tax to be?



A. Taxes increased at the rate of approximately \$60,000 a year since 1941 and \$72,000 between 1940 and 1941 and I would say a reasonable estimate would be approximately \$300,000 for the year 1944. That is a conservative estimate.

Q. And for the five-year period, adding the two together it would be \$985,130? A. Yes, approximately \$1,000,000.

Q. On page fifteen you have this statement: "This concern which so started had at December 31, 1942, a members' equity of over \$400,000 after making reserves for depreciation and sundry purposes in amounts in excess of \$270,000." You have examined the statements; can you give the exact figure? A. \$417,142.02.

Q. And what about the other figure -- "after making reserves for depreciation and sundry purposes in excess of \$270,000." What is the amount? A. \$266,702.90.

Q. Turning back to page three, section 2, you suggest: "That section 4 (p) of the Income War Tax Act be amended with a view to clarifying the nature of a cooperative." Explain to the Commission what the object of that is.

A. Well, I submit that this is the point of view that we have in mind. There are three main classifications under which the subject may be divided. First of all, there is the true cooperative, which has an actual and loyal membership and which is in effect marketing the products of these members. We think that that definition should be made clear in the act, either in section 2 or in section 4(p), as the case may be. If it is defined in section 4(p), then that section should also provide that it should be exempt from taxation subject to the provisions of section 3. We have in mind that that type of what we will refer to as true cooperatives should then be taxed on the amounts which they place in reserves, because we consider that the amount which they place in reserves is most closely





analogous to what the income of the private independent operator would be, and for other reasons still which I shall be prepared to clarify if desired. The second group are those which do not conform.

Q. Dealing with the first group, will you give me your ideas of the provisions that should be in there, that is, the qualifications of the true cooperative. A. Such as what?

Q. Such as application fee and so on.

A. You mean the cooperative?

Q. Yes. A. In the first place, we think that the term "membership" should be properly defined so that it shall be actually a proper membership and carry on its functions in a proper democratic way; and we think that the membership should provide for at least a sufficiently large fee to ensure the bona fides of membership. There should be application for membership and acceptance by the Board of directors; that there should be a contract of membership; that the terms of that contract should if necessary be generally defined in the Act; and that the member should be tied to the cooperative for a sufficiently long period to make sure that he is a real and loyal member of the organization.

Q. What do you say as to whether he should be permitted to deal partly with the cooperative and partly with private persons? A. My view would be -- this is my opinion -- that if a man undertakes to market through the pool he should be restricted, at least for a certain period, from marketing with other people. He has chosen that particular method and should not be allowed to market partly with one type of organization and partly with another; but he should be at liberty to change his method after due notice. I think there should be a complete, proper and democratic membership, certainly not the type of membership that allows people generally to become members



simply by referring to them as members.

Q. What do you say as to marketing? A. The Act at the present time uses the words "marketing the products". To me the term market is perfectly clear. I have a definition of it taken from Webster's dictionary. Marketing, according to Webster, is "the act of selling or of purchasing in or as in a market; buying or selling; bringing or sending to market." From Funk and Wagnalls' dictionary I take this definition: "To take or send to market; buy and sell or deal in a market." I have a number of other dictionary definitions and they all seem to go along the same line. It is a process of buying and selling. If the term "market" is not perfectly clear in the present Act it should be so amended as to put the definition beyond doubt; because, if a cooperative is permitted to go into manufacturing, it should be recognized that in the selling price there are three elements: (a) the cost of the produce which it ultimately sells; (b) the cost of the labour which it employs, and the gain on the employment of labour, and (c) the utilization of plant and presumably the gain on the utilization of plant. The selling price includes those three elements, and at the present time selling price is being returned in respect of only one of those elements in connection with manufacturing concerns which profess to be functioning under this section. That seems to me to be arithmetically incorrect. If presumably the cooperative is functioning as a manufacturing concern, there does not seem to be any reason why, in addition to the producer getting part of the selling price, at least arithmetically speaking labour should not get part of the selling price and the man who owns the plant get part of the selling price. That is why I think that the intention of this section, and the pure intention behind the



concept of the cooperative, is to buy and sell, to market products, and not to manufacture.

Q. Assuming that a pool comes within the terms of the Act, as amended according to your suggestion, then in that pure pool how do you define the income to be taxed?

A. I say that a concern complying with that section might then, for the purposes of this discussion, be described as a pure cooperative and it should then be taxed on its reserves. The patronage dividend should be recognized as an expense, and the reason I say that is that the reserves are the closest analogy to what we ordinarily understand by taxable income so far as the ordinary operator is concerned; and, secondly, if we were to make a mistake or a slight variance in the ascertainment of income, having regard to the fine public function which an organization of that type does perform, it is probably better to err in that direction than away from it.

THE CHAIRMAN: That is, to give them the benefit of the doubt?

WITNESS: Yes.

BY MR. O'CONNOR:

Q. Dealing next with cooperatives or so-called cooperatives that are not able to meet the standard set up in the amendment, on what basis should they be taxed?

A. I say that a concern which would not comply with this definition, either in section 4(p) or in section 2, is an ordinary corporation and should be taxed as an ordinary corporation. That is all there is to it.

Q. Is there not a further exception? As I understand, some have announced that they will carry on business so that there will be no income. In the next paragraph in your brief you have dealt with that. Explain what the basis is.





THE CHAIRMAN: If it were so, they would become true cooperatives?

WITNESS: They would be either true cooperatives or ordinary corporations functioning as such; but it is possible for an ordinary corporation which alleges itself to be a co-operative to represent itself as having no income. Then it becomes necessary to define what is the income of an alleged co-operative, and that is what I am endeavouring to give the minister power to do in matters which he may take into consideration, in my proposal number four. We do know that a corporation allegedly functioning as a co-operative, if it has heavy investments in lands, buildings and machinery and is carrying on trading and manufacturing, functioning not as a co-operative but as a corporation, has got income. Now it becomes a question of cost accounting, and the income tax administration should ascertain what that income is. In various places in the Act we are confronted with this situation; it is characteristic of the tax administration at the present time. In section 26 it is provided that where a non-resident person produces, manufactures, fabricates and so on, or constructs in whole or in part, anything within Canada and exports the same, he shall be deemed to be carrying on business in Canada and to earn within Canada a proportionate part of any profits ultimately derived from the sale thereof outside Canada; and it says that the minister shall have full discretion as to the manner of determining such proportionate part. I suggest that is an arbitrary function which the minister performs to ascertain what is taxable income under circumstances which ordinarily would render it difficult to ascertain taxable income. I suggest that an alleged co-operative does earn income from the ownership of land and buildings and the employment of labour and the purchase of products, and



it then becomes necessary for the minister to decide in what proportion, exactly as he is doing under this section.

Q. There are many other examples of that arbitrary apportionment? A. Yes. The whole concept of the excess profits tax is an example of that. Under our concept of the excess profits tax, we are making up our minds what portion of profits is due to war conditions. It is arbitrary but we come to the best possible conclusion administratively speaking. I do not need to go through the entire Act, but there are a hundred different places in which power is given the minister to make a decision somewhat along these lines.

Q. I think you have already covered it on page fourteen in the second paragraph. You might examine it. You say: "The Northern Alberta Dairy Pool Limited, in its so-called patronage dividends allegedly returns to its members part of the selling price of manufactured products. This selling price, which is allegedly divided in the ratio of producer patronage, comprises earnings not only on commodities purchased, but earnings derived from the employment of labour and the retinal value of land, buildings and machinery. Furthermore, the so-called patronage dividends include earnings from reserves invested in securities, and from trading in finished products. Surely such earnings cannot be properly described as an increase in the purchase price of the products purchased."

A. That is what I was trying to explain.

MR. THORVALDSON: Mr. Chairman, if you will allow me now to deal with the matter I referred to yesterday I can save time.

THE CHAIRMAN: Very well.

BY MR. THORVALDSON:

Q. I wanted to ask you a question yesterday, Mr. Winspear, in respect of your reference to patronage dividends, in the





Edmonton Chamber of Commerce brief. I think I can get what I want by putting one question now. On page four of the brief submitted on behalf of the Edmonton Chamber of Commerce, in the second paragraph, you refer to the matter you were discussing a moment ago, namely, what you mean by true producer and consumer cooperatives. You make reference to section 4(p) of the Income Tax Act and you discuss the question of patronage dividends. You have just explained in detail to Mr. O'Connor what you mean by your reference to these things. Will you tell us this. Are the views of the Edmonton Chamber of Commerce, as expressed by you, the same as the views of your client in respect of this matter of true cooperatives, patronage dividends and so on, or is there any difference?

A. I think the views are the same. Patronage dividends should only be allowed as an expense in the case of what we define as a true cooperative.

THE CHAIRMAN: I understood you to say yesterday, in putting forward the Chamber of Commerce opinion, that it was not necessarily yours, that it was their view and that you would express your own personal view in this case.

WITNESS: Yes.

BY MR. MILVAIN:

Q. Mr. Winspear, just before Mr. Thorvaldson questioned you, you were dealing with the paragraph on page fourteen in which you complain about the Northern Alberta Dairy Pool paying alleged dividends to its patrons, and throughout your brief you complain that the government is thereby, through such practices, suffering a loss of taxation. That is correct?

A. I do not know that the word complain is correct, but I do present that point of view.

Q. Are you prepared to say whether the government is suffering a real or an alleged loss of income or of revenue?



A. In my opinion the government is suffering a real loss of revenue.

"Q. Are you in the position where you can say whether or not the government has returned to it, through other sources of taxation, a fair proportion of the alleged dividends which the customers or patrons receive?

A. I am prepared to make this statement, that if I were preparing an income tax return for a farmer I would not include as his income the participation certificates of the Northern Alberta Dairy Pool.

Q. But you would include the cash dividends that he received? A. Yes.

Q. And as you pointed out in your brief, the cash dividends paid by the Northern Alberta Dairy Pool to its members are very substantial? A. Yes. I also pointed out that the cash dividends paid by a corporation, upon which that corporation has already paid income tax, would appear in the personal income tax returns of the recipients.

THE CHAIRMAN: Would it be possible to say what the diffusion of this fund to individual shareholders would yield in income tax as compared with what it would yield in the hands of the dairy pool?

WITNESS: It is not possible to say that, because there would be varying rates of taxation as between various groups; and, with due deference, it would not be particularly relevant in comparison with the ordinary corporation because the shareholder of the ordinary corporation is in effect paying taxation twice whereas the cooperative pays once.

BY MR. MILVAIN:

Q. You live in an agricultural community, as we all do in the west? A. Yes.



Q. It is a fact, is it not, that whenever cash in the pockets of the farmers in this country is increased all business increases? A. Yes.

Q. And as a result of that general increase in business there is a great increase in the taxes collected by all taxing authorities? A. Yes; and thus you suggest that it might be well --

Q. I asked you a question; please answer it. I have put a proposition to you. Is it correct? Do you agree with it? A. Generally, if farm income goes up the income of services ancillary to farms also goes up.

Q. If agricultural income goes up the income of everybody in the community goes up? A. That is fair, although I would not have it inferred from that reply that it necessarily follows that farm income should be perpetually subsidized.

Q. When you were giving evidence yesterday afternoon, I am not sure whether I understood you correctly, but am I right in the belief that you said that in receiving instructions and information for the preparation of the brief you presented you got those instructions and that information from Mr. Love and Mr. Empey? A. I did not say that. I said I got certain information from Mr. Love. I was being asked particularly with respect to information under section 2 of the brief. I got that information from Mr. Love and Mr. Empey.

Q. But there are some fourteen independent concerns who appear to be joined in this brief? A. Yes.

Q. Did you obtain information and instructions specifically from all of them? A. Mr. O'Connor and I obtained instructions from all of them in the sense that there was a meeting held in which Mr. O'Connor was instructed, and subsequently those who were not at that meeting either attended at my office and read the brief and signed it or else gave





instructions in some other way.

Q. Did all of them go into the details of the brief before it was presented? A. They all had an opportunity to do so.

Q. But did they? A. I had no opportunity to see them.

MR. O'CONNOR: Those who were at the meeting.

BY MR. MILVAIN:

Q. All of those whose names appear at the foot of the brief-- did they go over the terms of it after its completion?

A. I did not meet them all myself but the brief was left in my office and they called in, though I did not see them all. I understand, however, that they read it over, and if they were in agreement they signed it. I don't know to what extent they went into the details.

Q. Have you been connected with the dairy business here for some time in your capacity as an auditor? A. I do not think we audit any of the large dairy companies; one or two small ones.

Q. Do you know of your own knowledge whether or not the so-called independent concerns have adopted in the past, and carried on for some time, the practice of making an initial payment and final payment to their farmer customers?

A. No, I do not.

Q. On page one of the brief you speak of "enormous sums paid for propaganda and so-called educational purposes by the pools." Just what do you mean by enormous sums?

A. I believe that the Alberta Co-operative Act --

Q. I am asking you what you mean by enormous sums?

A. Five per cent of the surplus of the pool as provided in the Act.

Q. Do you of your own knowledge know of any amounts that were spent by any pool on advertising or propaganda?



A. I have listened to radio broadcasts and have seen advertisements.

Q. But do you know of any amount that has been spent by any dairy pool on advertising or propaganda?

Q. I don't know how much they paid and whether they paid the bills or not, but I have seen the advertisements and I have listened to broadcasts.

Q. So when you speak of enormous sums it is a pure assumption on your part? A. I presume they are complying with the Act.

Q. But you have no personal knowledge of what has been spent? A. I presume they are complying with the Act.

Q. But you have no knowledge? A. My knowledge in this brief has been gone over completely.

Q. But your knowledge is presumption. I can sum it up by putting it that way? A. Right.

Q. Now on page three of the brief, dealing with your recommendations and possible amendments to the Income Tax Act, and also in connection with your further explanation of these recommendations made this morning, would it be fair to say that those recommendations might be summed up in this way: that you suggest transferring to the authority of the Dominion Parliament almost exclusive control over the regulation of cooperatives? A. No; that is not a fair statement.

Q. But you do recommend that, by Dominion legislation, detailed definitions shall be given of what a cooperative is and what the membership shall be?

A. For taxation purposes, yes, I am referring to the Income War Tax Act.

Q. But you don't feel that that legislation should provide for any further regulation over them other than for





taxation purposes? A. No; I do not think it would be fair to say that I propose to give to the Dominion Parliament any more control over cooperatives than it presently possesses over the operations of an ordinary corporation.

Q. But you do recommend that very wide discretionary powers be given the Minister in the matter of determining just on what basis cooperatives shall be taxed? A. Under certain circumstances where the income of an alleged cooperative is being intentionally dissipated, yes.

Q. And I suppose the minister will determine, at his discretion, what is a so-called cooperative and what is a true cooperative? A. No. We propose to define in the Act what is a so-called cooperative.

Q. But the minister will decide, from the operations of any particular concern, which definition it falls under? A. Subject to the right of the concern to appeal to the Exchequer Court.

Q. There is no doubt you are recommending that the minister be given very wide discretionary powers with respect to cooperatives? A. I am recommending that he be given some measure of discretionary power, or approximately the same measure of discretionary power which he always possesses in relation to other taxpayers.

Q. You would not make these discretionary powers wider than they are with respect to present corporations? A. I don't think so. I don't think it is necessary.

Q. You presented a brief on behalf of the Edmonton Chamber of Commerce? A. Yes.

Q. Is it not a fact that the chambers of commerce and boards of trade throughout Canada have been passing resolutions and making recommendations protesting against the discretionary powers that lie in the hands of the minister under the Tax Act,



or do you know that? A. The Boards of Trade throughout Canada.

Q. Boards of Trade and Chambers of Commerce.

A. Maybe; yes, I think so. I think that has been done.

Q. You think that is a fact? So that as a member of a Chamber of Commerce you probably agree with the position taken by Chambers of Commerce throughout Canada?

A. Not necessarily. I do not agree with everything they do.

Q. You devote considerable attention in your brief, to the danger of monopoly in so far as cooperatives are concerned. Section 5 of the brief appears under the heading "Danger of Monopoly". A. Yes.

Q. You say that during 1944 approximately 14,315,564 quarts of milk were sold in Edmonton, and of this the Northern Alberta Dairy Pool Limited sales were approximately 2,700,000. That is correct? A. Yes.

Q. Does that suggest any great danger? When you bring your mind to bear on the figures you gave with respect to milk deliveries in Edmonton, and the situation with respect to the number of creameries in the northern area, do you say that it suggests any great danger from monopoly?

A. I do, yes. As we point out, the situation around Edmonton is probably not quite as serious as it is compared to that in country areas. If you add to the production of the northern pool what is produced by the southern and central pools you come to the conclusion that the remaining thirty-nine plants have a very small share of the business.

Q. They are still in business? A. Yes, eighteen of them less than last year.

Q. But there are more points at which there are so-called independents than points where there are cooperatives?

A. I think the danger exists.

Q. You point out at pages five and seven the fact that the



Northern Alberta Dairy Pool Limited, purchased eighteen creameries during the past year from Burns and Company?

A. Yes.

Q. I do not suppose you suggest that Burns and Company were compelled to sell out to the cooperatives?

A. I do not know what their motives were.

Q. I do not think you would even suggest that?

A. I repeat, I don't know what their motives were.

Q. You know that Burns and Company are a powerful company?

A. Yes. They are a very powerful company, but if you would like my opinion as to what might be business motives at the present time--

Q. I want you to answer my question at the moment.

THE CHAIRMAN: Isn't that an answer?

MR. MILVAIN: The question was whether he agreed that Burns and Company were a powerful concern and he said yes.

THE CHAIRMAN: What was the next question?

MR. MILVAIN: I had not put it yet. Do you know why Burns and Company sold their creameries?

WITNESS: No.

BY MR. MILVAIN:

Q. Do you know that Burns and Company have sold all their creameries in Alberta and Saskatchewan with the exception of one in Calgary?

A. No.

Q. I do not suppose you know whether Burns and Company consider that they made deals satisfactory to themselves, or not? A. I am sure they made a satisfactory deal; at least I assume so because on the creameries as they operate them they would have to pay income tax, whereas out of the proceeds when they sell to the Northern Alberta Dairy pool they get part of the tax immunity of the Northern Alberta Dairy Pool.

Q. Burns and Company do? A. Yes.





Q. Do you know that? A. If they sell at a profit they make a capital profit which is non-taxable in their hands, and the ultimate tendency is to encourage people to sell out by obtaining a portion of the tax immunity which inures to the cooperative.

Q. You do not know to what use Burns and Company placed the money they received from the sales? A. No.

Q. And therefore you do not know whether tax is being paid? A. I know that unless they were very foolish they did not pay tax on it because they are not liable for taxation on the proceeds of the sale.

Q. By the way, do you know that one of the firms that have signed this brief which you presented, the Edmonton City Dairy, was formerly controlled by the Dairy Corporation of Canada? A. Yes, I know that; and prior to that, I believe I am correct in saying, it was a private enterprise, a local enterprise which started with local capital.

Q. Is it true that the Dairy Corporation of Canada was recently absorbed by another concern? A: I do not know that.

Q. If that should be the fact --

MR. O'CONNOR: If that should be the fact?

THE CHAIRMAN: The witness says he does not know. You cannot go further than that.

BY MR. MILVAIN:

Q. On page eight of the brief you begin section 4 under the heading "Northern Alberta Dairy Pool Limited is not a cooperative." A. Yes.

Q. And a large part of that section of your brief is made up of a summary of an opinion that was submitted in 1942 by Mr. Parlee? A. Yes.

Q. You say that you have adopted as your own the opinions



that were expressed by Mr. Parlee?      A. I do.

Q. Are you prepared to go so far as to say that you have taken into account the same matters and considerations that Mr. Parlee had in his mind when he expressed his opinion?

A. I don't know what he had in his mind. I have always had a great deal of confidence in Mr. Parlee's opinion. He went into the matter very thoroughly and I am prepared to accept his opinion at its face value.

Q. But it is difficult for you to say that those opinions are yours. They are someone else's opinions which are being passed on by you?      A. It is not difficult to say it.

Q. Don't you agree with me?      A. I base my opinion on Mr. Parlee's opinion.

Q. All of the matters that are set out in this whole part 4, in this summary which you set out in your brief, were submitted to the income tax authorities in 1941?

A. Yes.

Q. And the facts and figures you mention there?

A. Yes.

Q. From which you endeavour to indicate that this Northern Dairy Pool is not a true cooperative?      A. Yes.

Q. That its whole membership situation was not proper?

A. Yes.

Q. That its dealings with non-members were excessive under the act?      A. Yes.

Q. In fact, all the arguments that you have advanced to this Commission through this brief were advanced to the income tax authorities in 1941?      A. Yes, and we have not had a reply from the income tax authorities as to what their conclusions were, beyond the fact that they were still investigating the matter and at a certain stage it was expected that a Royal Commission would be appointed to inquire into the





whole subject.

Q. But you do know that the Income Tax Department made some investigation? A. We have not yet heard the conclusions.  
Q. You do not know whether they were satisfied with the answers given by the pool? A. We don't, beyond the fact that they advised us there would be a Royal Commission appointed. That transpired in conversations.

Q. How long ago? A. I couldn't say.

Q. Back in 1941? A. No.

Q. Within the last year? A. Yes.

Q. Did they only go so far as to tell you that this Royal Commission would be appointed to go into the cooperative situation generally? A. They told us a Commission would be appointed.

Q. They did not tell you that a Commission would be appointed to investigate the Northern Dairy Pool specifically? A. No.

Q. All the Department did was to tell you that this Commission would be appointed to investigate and go into the cooperative situation generally? A. Yes.

Q. So that you have no knowledge of what decision the Department came to as a result of the investigation which you had instigated in 1941? A. Nor whether they came to a decision.

Q. And back in 1941, when you made the representations which you did, you did so on the instructions of private dairy concerns that retained you? A. Yes.

Q. Do you feel that you have advanced anyone's cause very much by repeating those arguments to this Commission -- the arguments which you previously advanced?

A. That is for the Commission to decide.

Q. At page nine you make this statement: "It is submitted



that it is fundamental to the Rochdale principles that in a true cooperative every member must have an equal interest with every other member." What do you mean by a true cooperative on the Rochdale principles? A. I mean one that generally conforms with the concepts contained in the Rochdale principles. I think I have them here.

Q. What is that paper you have in your hand?

A. The Co-Op News, their official organ.

THE CHAIRMAN: The principles are well known. They have been set out for a hundred years.

BY MR. MILVAIN:

Q. Do you consider that the cooperatives that are set up under the English legislation are of that nature?

A. Of what nature?

Q. True cooperatives in accordance with the Rochdale principles. A. I am not in a position to say what co-operatives are doing in England under English legislation.

Q. But you do submit that one of the fundamental requirements of a cooperative under the Rochdale principles is that the interest of each member must be equal to that of every other member? A. Yes, and democratic control which is one member one vote.

Q. Is it not a fact that under the English Cooperative laws any one individual can purchase shares up to the value of £200? A. I would not know.

Q. Through page eleven and following, in your brief, you generally attack the membership constitution of the Northern Alberta Dairy Pool. That is a true general statement, is it not? A. I express the opinion that the associate member is not a member in the real sense of the term.

Q. Is it a fact that there is no definition whatever of member or membership anywhere within the four corners of the



Income Tax Act? A. That is right. The term member is used in section 4(p) but it is not defined. It is one of the things we think ought to be done.

Q. And in the absence of such definitions in the Income Tax Act we must come back to our provincial legislation? A. I do not agree with that.

Q. And you offer that as your opinion as Counsel or as Accountant? A. I offer it as my opinion as a citizen.

Q. By the way, Mr. Winspear, do you know that as one of the principles accepted under the Rochdale plan a limited rate of interest may be paid on share capital? A. Yes. That concept, I think, is much sounder than having no share capital at all and simply dividing up the profits, wherever they may come from, in the ratio of butter fat produced, for instance.

Q. But if the provincial legislation permits the setting up of cooperative companies, either marketing or otherwise, within the ambit of that legislation, you see nothing wrong in their using these deductions? A. Not a bit, for taxation purposes. But the next question is, do they comply with the provisions of the Income War Tax Act? There is nothing to stop them operating under any legislation in the province.

Q. On page 11A you point out that the directors of the Northern Alberta Dairy Pool have the right to expel a member? A. Yes.

Q. Do you know of any case in which that has been done? A. No, but I would hate to be in the position of a member who could be expelled, with heavy investment in a pool.

BY MR. O'CONNOR:

Q. Mr. Milvain suggested that the higher the income of the varmer the greater the general prosperity, and he suggested further that if the cooperatives were not taxed that would





increase the income of farmers and therefore bring prosperity to us all. Is it not equally true that if the independent milk companies were not taxed they too would be able to give a much higher return to the farmers?

A. Yes. Of course, if none of us were taxed we would all have higher incomes.

Q. Why are we taxed?

MR. PARKER: Oh, oh! What is this?

WITNESS: The government requires money.

THE CHAIRMAN: After all, there is a war on.

BY MR. O'CONNOR:

Q. What I want you to make clear is this. We were not urging the taxation of cooperatives merely for the pleasure it might give us to see them taxed. What we are striving for is equality. A. Yes, equality of incidence.

BY MR. VAUGHAN:

Q. At the bottom of page eighteen you recommend that "such cooperatives should be taxed on that portion of their income which is not returned to their members in cash each year." Are you referring to the future, or has that a reference to the past? A. Which sentence is that?

Q. It is in the last few lines at the bottom of page eighteen: "They recognize the administrative difficulties of defining the income of true cooperatives, and they therefore recommend that such cooperatives should be taxed", and so on. A. Yes, I see that.

Q. In that, do you refer to the past or are you thinking of the future? A. I would say we are recommending an amendment to the Act which would so define income in the future. But if in the past, owing to tax immunity or for other reasons, an organization has so built itself up that it has income from other sources apart from buying, selling and marketing products,



then it would seem to us that it would no longer comply with section 4(p). It will have income from other sources and should be taxed as an ordinary corporation in accordance with the formula we suggest.

Q. You are speaking of the future. Is it your idea that this should apply to any reserves already accumulated?

A. Only income in the future on these reserves.

Q. They should be taxed? A. Yes.

Q. How would you propose to determine whether it was on a forty per cent rate or an excess profits rate?

A. First of all, define income, and under the Excess Profits Tax Act it is subject to the usual process of going to the board of referees in respect of the setting of standard profits, and it becomes taxable under the Excess Profits Tax Act.

Q. There is no obvious way now of determining or setting a basic period as there is in the case of a corporation?

A. That is quite often true. New business is starting up and the board of referees takes all things into consideration and sets the standard.

Q. You mean that the board would determine something as the basis on which excess profits would be fixed? A. Yes.

Q. That method of having the Minister at Ottawa determine what the taxation should be in each case would be rather complicated, would it not? It would mean that you would have to deal with every particular case. Is there any simpler way?

A. It quickly resolves itself into a matter of formula, and there would be few instances in which he would have to exercise discretion in that way. Here we have an ordinary corporation which buys and sells, and ordinarily income is the excess of selling over buying less expenses. There is no problem. Now





we come to a second type of corporation, who are able to represent themselves as having no income, in effect, by making an expenditure which would not be allowed as expense incurred for earning the income under ordinary circumstances, or alternatively as having failed to receive income which in the case of an ordinary corporation would have been received. These are circumstances under which, we suggest, the Minister should have the power to take into consideration the fair return on labour employed, the rental value of land, buildings and equipment.

Q. You also say that a true cooperative should be taxed on investments. Do you mean investments in securities, such as Victory bonds, or on investments such as land, buildings, equipment, et cetera? A. Securities, Victory bonds and marketable securities of that type.

Q. And real estate? A. Well, our submission is that if a cooperative gets to the stage where it is deriving a considerable income from these sources, then it is no longer marketing but getting income from another source and is no longer complying with 4(p).

Q. You have said that when money is invested in fixed plant it should be taxable? A. Yes.

Q. I was trying to reconcile that with this particular clause in your brief. You just said that you referred only to income from securities. Do you mean securities or investments as a whole? A. If a concern is performing a true marketing function, buying and selling, it does not ordinarily need large plant and equipment. It may retain certain reserves to protect itself, and for other reasons, and if those reserves are invested in Victory bonds, that Victory bond interest should be taxable. But if it proceeds to invest in land,



buildings and equipment and thereby undertakes other functions which are not marketing functions then it is no longer a co-operative under section 4(p) but an ordinary corporation. I am not thinking of the situation where a true cooperative might have a few thousands in Victory bonds on hand which it retains to protect itself for a period.

Q. I wanted to have a clear understanding of what you mean by investments.           A. Marketable investments.

Q. Does what you say apply to credit unions and mutual fire insurance companies, or is it confined to true cooperatives?

A. Frankly, sir, I have not given the same study to credit unions and mutual fire companies. I think the general principle should be that any concern which is properly incorporated should be taxed on its reserves. Whether that would apply to credit unions I do not know.

Q. You have not covered that?           A. No.

BY MR. ARNASON:

Q. A moment ago you referred to a cooperative performing "a true marketing function" and you quoted Webster's definition of marketing. That quotation is, in part, "the act of selling or of purchasing in or as in a market." In view of your use of the words "true marketing function" I wonder whether we might explore your meaning a little further. As regards selling in a market, would that in your opinion include the acceptance of the farmers' product and the processing of that product in such a manner that it can be sold to the consumer? Would your conception of the marketing function include the acceptance of cream and the churning of that cream into butter so that it can be sold to the consumer?

A. Absolutely not, because there are in the selling price of butter substantial elements other than the butter fat



which was originally purchased. There is the employment of labour, there is the utilization of the fat, and so on.

Q. Can you suggest any formula whereby those three functions which you have described could be segregated for tax purposes? A. Yes, I can and I think I have. But I may say this: To me it is a complicated matter to classify income according to the various functions which are performed, but it is a problem we are continually meeting in accountancy. In the public utility industry we start off with the purchase of materials, employment of labour, use of capital, and we find the selling price. In this case we have the problem largely in reverse. We have the selling price and we have to work back and find out what part of that selling price is represented by purchase of materials, employment of labour and use of land and buildings. That is a cost accounting function, the technique of which it would be difficult to describe but which I am quite sure can be performed with a reasonable amount of intelligence.

BY MR. ELLIOTT:

Q. Since Mr. O'Connor has finished with you, there are two small points which we might have cleared up for the record. Mr. O'Connor asked you whether, if the independent creameries did not have to pay income tax, they could not pay more for the product. Would it not be more in keeping with the usual practice, if they were allowed to retain the income tax, for them to pay more to their shareholders, or to use the proceeds for greater expansion, rather than to pay more to the sellers of the cream? I am speaking of income taxes pure and simple which are not paid if the concern makes no profit.

A. Of course, it is hard to know what you mean by the word "usual". I would say, speaking from my experience in this part





of the world, that would not tend to be correct. The average small corporation which is controlled, we will say, by one man, is mainly interested in securing for itself -- or he for himself -- a satisfactory seller and a demand for his services. That is the first thing he does. Generally speaking, I would say that the tendency to make a large margin over and above that seller is not indicated under the present tax.

Q. I would include the salary of the owner. My own point is that the general tendency is to increase the income of the owners of the creamery rather than that of the customers. A. It is possible, but I do not think so.

Q. Even in the case of milk? A. There is a measure of control in milk, a measure of utility control.

Q. I have a second point in mind. In your answer to Mr. Vaughan with regard to the treatment of certain types of cooperatives for excess profits purposes, there is one type of what you refer to as "so-called co-operatives" which you suggest cannot be readily taxed without giving the minister some discretion to estimate what the profits normally would be on the capital and other agents employed by that concern.

A. I don't like the words "normally would be".

Q. Well, what it ought to be.

A. I don't like the words "ought to be."

Q. What term would you prefer? A. I think we have to start off with the knowledge that cooperatives do make profits, and my authority for that is the president of the Central Alberta Dairy Pool, in Western Farm Labour of April 18, 1941, to the effect that cooperatives are business enterprises and that they are out to make profits. He says: "Their first incentive is of course to give service, and after that they are business enterprises built upon economy and efficiency for the sole purpose of making money. But --



and herein lies the difference -- a cooperative returns to its members, not to a few individuals, every cent of profit it makes." He goes on to say that every member is a shareholder and there can be no watered stock, and so on.

Q. I think we have the substance of that, Mr. Winspear.

A. What I mean is that if we start with the knowledge that the profits are there, then I am suggesting a measure by which we can find out what these profits are each year. As the return on labour tends to increase, as the return on lands and buildings tends to increase, that should be taken into consideration. In other words, I do not think it should be fixed income.

BY MR. ARNASON:

Q. To some extent that has reference to the question I asked you. Would that mean that you would have to undertake the investigation of every cooperative to determine the respective returns of different ones?

A. Yes, to the same extent as the Department now assesses the taxpayer when it has the same doubt as to the accuracy of statements submitted.

Q. It is a cost accounting problem? A. Yes.

BY MR. ELLIOTT:

Q. Your proposal is that the assumed or imputed earnings of these so-called cooperatives which it is difficult to tax should be computed each year at a different level in accordance with the general prosperity of the business?

A. Exactly.

Q. And therefore that the difference between the level imputed in a particular year and the level imputed in some other period should be taken as excess profits? A. Yes; or alternatively, the level as compared with the standard profits.





BY MR. VAUGHAN:

Q. The discussion this morning has been mostly on the question of producer cooperatives. Do your remarks refer equally to consumer cooperatives? A. I think the consumer cooperatives that comply fully with the provisions of section (4)(p) as amended should be taxed on their reserves and that patronage dividends should be exempt as an expense.

Q. Is there some way of finding the profits in a consumer cooperative?

A. I make that suggestion for two reasons. In the first place, it is the closest analogy we can get to what would be income in the case of an independent operator. Suppose a little consumer cooperative has an income of \$5,000 before salaries, and suppose an independent across the street also has an income of \$5,000 before he draws money for his own living purposes. The consumer cooperative first of all pays the manager \$3,000. That \$3,000 is taxed in the hands of the consumer cooperative's manager and it means that the \$3,000 is then correspondingly taxable in the hands of the individual owner. Then the next thing that the consumer cooperative does is to place \$1,500 in reserve. That means that the independent can be in the same position as the cooperative and have an income of \$4,500. Now the remaining \$500 the consumer cooperative pays out in reduction of selling price. It seems to me that it is socially desirable that the independent should pay out a corresponding amount, and he is not suffering a great hardship in so doing.

THE CHAIRMAN: There seems to be some reluctance to let you go, Mr. Winspear, but apparently there are no more questions to be asked you.

MR. O'CONNOR: I wish to apply to the Commission for the



statements of the over-run from 1940, 1941 and 1942 to gibe with the balance sheet given us. I would like to get the over-run for the years from 1940 to 1943 both inclusive. Perhaps we can get that at two o'clock.

THE CHAIRMAN: Is that available, Mr. Milvain?

MR. MILVAIN: I will endeavour to get it.

MR. THORVALDSON: Before you go on to the next case, Mr. Chairman, might I refer briefly to the matter I brought up at Calgary on Monday? I gave notice that I would bring it up to-day and I would like to deal with it now. I think you are aware of the matter to which I refer, and in that connection I would like to make this statement. There might be just a little bit of disagreeableness if it were thought that I was bringing it up for the purpose of discrediting any witness.

THE CHAIRMAN: Is this the matter that arose in British Columbia?

MR. THORVALDSON: Yes, Mr. Chairman. I simply wish to say at the outset that my main object in bringing up the matter is not to discredit anyone who is not here and is not in a position to answer for himself. Pursuant to what you said the other day, Mr. Chairman, I have had served on the gentleman in question notice saying that I would be bringing the matter up this morning after ten o'clock, and in the notice which I have given to him I have advised him in these terms: "If you desire to make representations to the Commission in respect of the matters concerned herein, opportunity will no doubt be given you by the Commission to be heard either in person or by agent." I have no knowledge whether the person in question is here this morning or not, but I feel that the statement which I desire to file with the Commission is very pertinent indeed to the third term of reference of the Commission, and I would like to have the





the permission of the Commission to file this statement.

THE CHAIRMAN: You know as I do, Mr. Thorvaldson, that the person in question has requested counsel to act for him here. Counsel he has communicated with has declined to do so, and, I believe, has replied telling him so. I would suggest that you leave the matter to a further hearing, to allow the individual to be represented if he cares to be.

MR. THORVALDSON: Yes, Mr. Chairman. I thought that perhaps if he cared to be represented he would have had ample opportunity to be represented this morning.

THE CHAIRMAN: He has had "ample opportunity", but perhaps he has not had enough.

MR. THORVALDSON: I am most anxious to have the matter dealt with. I think it is quite pertinent to the terms of reference and I am anxious that the statement be accepted at sometime, and if you would suggest a time I would be glad to bring the matter up.

THE CHAIRMAN: I suggest that we defer this to Regina and I would ask you then to present that statement to the Commission in private. I do not think it is of any interest at all to the public, and if no action has been taken by the time we reach Regina we will hear you in private.

MR. FRANCIS: May I make a brief statement, Mr. Chairman. It has appeared in the public press that my learned friend Mr. Thorvaldson is representing interests that are not co-operative and therefore it might be assumed, when Mr. Thorvaldson suggests that the veracity of a witness is attacked, that the witness is sponsored by cooperatives. I wish to make it perfectly clear that the witness in question is not sponsored by cooperatives. He was not called by cooperatives and has not been adopted by cooperatives.





THE CHAIRMAN: He has not so stated.

MR. FRANCIS: But that is an inference that might be taken from what has been said, and I want to make that perfectly clear.

THE CHAIRMAN: The record is quite clear.

MR. PARKER: I think it would be logical now to proceed with the brief of the Northern Alberta Dairy Pool.

MR. MILVAIN: I wish to introduce the witness, Mr. Russell Stanley, and have him read his brief, following which I would like to ask him one or two questions to meet certain statements that have been made.

MR. RUSSELL STANLEY,  
Manager of the Northern  
Alberta Dairy Pool Limited,  
having been duly sworn,  
testified as follows:

BY MR. MILVAIN:

Q. What is your first name? A. Russell.

Q. You are the manager of the Northern Alberta Dairy Pool Limited? A. Yes.

Q. How long have you occupied that position?

A. As general manager, since the first of January this year.

Q. And how long have you been connected with the organization? A. Since 1929.

Q. Prior to that were you engaged in the dairy or milk business? A. Yes, going back to 1911.

Q. Were you with cooperative associations or with so-called independents? A. Private organizations.

Q. You have a brief to present to this Commission on behalf of the Northern Alberta Dairy Pool Limited?

A. Yes.

Q. Will you read the brief. A. I would like to add the words "Dairy Pool" after the word "three" in the second line.



I will now read the brief.

MR. STANLEY (Reading):

"Royal Commission on Cooperatives  
Brief submitted by Northern Alberta  
Dairy Pool Limited."

1. Introduction

"(1) Apart from the Cooperative Milk Company Calgary Limited which has filed a separate brief there are three dairy pool organizations in Alberta engaged in the distribution and marketing of dairy products. Two of the said organizations are of very considerable size and the other smaller. Upon reflection it appeared to us that there was much in common between all three and that the commission's time might be saved and at the same time a more complete picture be given were a general brief to be submitted by one organization. In this manner much repetition can be overcome and redundancy avoided.

"(2) In the first place it is necessary to point out that with respect to the dairy business including the distribution of fluid milk, the province has been divided, by mutual agreement, into three zones. The Northern zone centres around the city of Edmonton and extends south about half way between Edmonton and Red Deer. Northern Alberta Dairy Pool Limited confines its activities to this zone. Its principal plant is situated in the City of Edmonton and it operates an extensive line of creameries throughout the northern area. It also makes distribution of fluid milk in the city of Edmonton by door to door delivery to consumers and through stores, restaurants and similar outlets.

"The second zone occupied by Central Alberta Dairy Pool centres on the city of Red Deer. The Central Alberta Dairy pool confines its operations to the manufacture of butter and processing of milk products in a condensory





operated in Red Deer. This organization does not engage in the distribution of fluid milk except to a small extent in the towns of Ponoka and Olds. It too operates a number of country creameries.

"The Southern zone centres on the city of Calgary. In this zone the marketing of dairy products is attended to by two cooperative organizations. The Cooperative Milk Company Calgary Limited distributes fluid milk in the city of Calgary as shown in its separate brief. Southern Alberta Dairy Pool Limited, which is the smallest of the three dairy pools, is largely confined to the manufacture and distribution of butter produced from the cream delivered to it by its producer members.

## II. Origin and History of the Dairy Pools

"(1) The movement for organization of cooperatives in the field of agriculture seems to have taken place at about the same time and incidentally to have many characteristics in common among the three areas of the Province. In a pioneer country such as was Alberta, at least in the first twenty-five years of its history, the trend taken in the development of agriculture was to place first emphasis upon grain and second upon livestock. Development of the dairy field remained for later attention. This seems to explain why definite movement looking to the development of cooperative activity in the dairy field was delayed until after such activity had been developed in the other two fields.

"Movement toward cooperative marketing of dairy products seems to have commenced in all three zones in the early 20's, arising out of the discontent prevailing among farmers throughout the province as a result of the depression following the first war and the decline in prices of farm products which then occurred. The first step in all three zones



was the organization of cooperative groups, some incorporated and some not, having as their object the negotiations of prices. In the northern zone this early association took form in the incorporation of Alberta Corporative Dairy Pool Limited in 1924 and 1925. This organization negotiated marketing agreements with a number of privately owned creameries in the northern area under which the product of its members was marketed through the creameries on a profit sharing basis.

"In the Central zone it appears that as early as 1918 or 1919 a strong disciple of cooperative methods came from Denmark in the person of Mr. N. A. Larson. He commenced operating a creamery at Alix known as the Meadow Creamery. In the early 20's groups of producers throughout the district surrounding Alix including the Elnora and Grainger group concluded agreements with Mr. Larson under which dairy products were delivered to the Meadow Creamery on a share of profit arrangement.

"In the southern zone it appears that as early as 1923 an association known as Huxley-Grainger Dairymen's Association came into being in the area north of Calgary. This Association appears to have negotiated agreements with a creamery at Elnora and with Campbell & Griffin Limited in Calgary whereby their product was directed through these firms on a special price arrangement. In 1925 a similar arrangement appears to have been made with Meadow Creamery at Alix. In 1926 an association known as Calgary District Dairy Producers Association Limited was formed for the purpose of negotiating cream prices with existing companies in Calgary. It appears to have entered into an arrangement with the Mayfair Creamery in Calgary, also





operated by Mr. N. A. Larson, in which the Association shared in the profits derived from disposition of its members products by the creamery.

"(2) The second phase of cooperative development in the dairy field came with the conviction on the part of the Associations that they were unable to attain their full objective, of increasing returns to the producer, as only negotiating bodies and that they would have to enter into the processing field. In fact in the northern area the experiment proved somewhat disastrous as some of the groups faced claims for overpayments made to their members by certain privately-owned creameries.

"(a) The first association to become incorporated with this end in view was the central area. Central Alberta Dairy Pool was incorporated on the 18th of August, 1924. At first it carried on a marketing agreement with Meadow Creamery at Alix on a share of profit basis.

"(b) The northern area was the second to become so organized. Northern Alberta Dairy Pool Limited was incorporated the 30th of June, 1928 and almost immediately went into the business of manufacturing butter.

"(c) The southern zone was the last to become so organized. Southern Alberta Dairy Pool Limited was incorporated on the 14th of August, 1928 and almost immediately went into the business of manufacturing butter.

"It is probably safe to say that a very decided factor leading to the three organizations entering upon the manufacture of butter was the encouragement given by the Government of the Province of Alberta. This encouragement was extended through the supervisor of cooperatives who had been appointed to encourage and assist in the development of cooperative marketing associations. The government also





passed the Cooperative Marketing Associations Guarantee Act as part of that deliberate plan. By that act the provincial treasurer is authorized to make loans for the purpose of assisting cooperative marketing associations in acquiring land, plant and equipment.

"(3) The third stage which also took place at about the same time in all three zones was entry into the manufacturing business by the dairy pools.

"(a) In February of 1929 Central Alberta Dairy Pool purchased Meadow Creamery at Alix from Mr. Larson and commenced operations.

"(b) In the fall of 1928 Northern Alberta Dairy Pool Limited purchased land in Edmonton on which its plant is now located and constructed a creamery and installed equipment therein. In the fall of 1929 it constructed a milk plant in Edmonton and started making deliveries to customers in that city on the 1st of January, 1930.

"(c) At the outset of its operations Southern Alberta Dairy Pool Limited purchased the Mayfair Creamery in Calgary from Mr. Larson and operated in those premises for a short time until new premises were acquired.

### III. Incorporation and Organization

"(1) Many of the features with respect to incorporation and organization are the same with respect of all three Dairy Pools and insofar as they are similar will be set out in this part of the brief.

"Each Dairy Pool was incorporated under the provisions of the Cooperative Marketing Associations Act of the Province of Alberta.

"Each Association was incorporated on the basis that standard marketing agreements would be entered into with its members.



"The memorandum and articles of association of each association disclose the following salient features common to all:

- '(a) The objects of the association are declared to be to act as agent and factor, to receive and take delivery of, handle, mix, manufacture into butter or cheese or milk products, milk and/or cream and also eggs and poultry, and to grade, store, transport, market, sell or otherwise dispose of the products delivered to it by its members.
  - "(b) To enter into any contract or arrangement whatsoever for or incidental to the cooperative selling or marketing of the products delivered to it by its members.
  - "(c) To act as mercantile agent as defined by and within the meaning of the Factor's Act.
  - '(d) Each association was designed to carry on the basis of a standard marketing agreement with its members.
  - '(e) The area served by each association is to be divided into districts for the purpose of electing delegates and directors.
  - '(f) A member has but one vote and cannot vote by proxy.
  - '(g) Surplus earnings from the sale of members products remaining in any year after deduction of operating expenses and necessary reserves shall be held in trust or applied for the benefit of the members.
- (2) All three dairy pools were organized on the basis of entering into marketing agreements with their members. These marketing agreements were more or less standard throughout western Canada and perusal of the contracts used by the three dairy pools will disclose the following





features common to all:

- "(a) The producer agrees to deliver all milk or cream produced by him to the Association for a fixed period of time.
- '(b) The Association is appointed agent and factor within the meaning of the Factor's Act to receive and take delivery of the products delivered by the members and to handle and market the same on behalf of those members.
- '(c) The Association is empowered to borrow money and for that purpose to give security on the products delivered to it by its members.
- '(d) Authority is given the Association to make deductions for capital purposes. Participation Equity Certificates or Reserve Share Certificates shall be issued to members representing such deductions.
- '(e) In the event of winding up the members shall share in the assets of the Association in proportion to the certificates held by them.
- '(f) The Association is authorized to deduct any amount due for a membership fee from moneys due a producer.'

"We wish to emphasize the point that all three dairy pools were organized on the basis that marketing contracts be entered into with all members. When the contracts are read with the memorandum and articles of association it is made clear that each dairy pool was organized to act on an agency basis as factor for its members. Though the northern and southern pools have abandoned the contract as a basis of membership no change has been made in the memorandum of association and both dairy pools carry on in relation with their members on exactly the same basis as they did when the contracts were used.



"All of the dairy pools did not take advantage of some of the rights given them under the marketing contracts. Notably the right to make deductions as will be shown in their separate briefs.

"Having made the above general statement applicable to all three dairy pools it is proposed to confine the balance of this brief to the affairs of Northern Alberta Dairy Pool Limited.

IV. Memorandum and Articles of Association of Northern Alberta Dairy Pool Limited

"(1) The following clauses in the memorandum and articles of association of this Association are of particular importance:

'(a) Clause 5 of the Memorandum of Association - 'The Association is to have no share capital. The interest of each member of the Association is not the same as that of every other member but shall be determined from time to time by the proportion which his holdings of reserve share certificates shall bear to the total amount of reserve share certificates then outstanding. Upon any distribution of the assets of the association, by voluntary winding up of its affairs or otherwise, only members who are holders of one or more reserve share certificates shall participate in the proportion which his holdings of reserve share certificates bear to the total amount of reserve share certificates then outstanding.'

'(b) Clause 38 of The Articles of Association - "Any surplus funds from the sale of members' products remaining in any year after the payment of the initial payment and of all operating expenses and after setting aside such reserve or reserves as the directors may deem necessary, shall be held for the benefit of the members and shall be returned to the members as a further payment on account



of the sale price of their products at such time and in such manner as the directors may deem expedient and in particular the directors may, with respect to such proportion of such final payment as they deem advisable, issue to each member a deferred share certificate and such deferred share certificates may be paid at such time and in such proportions as the directors in their discretion may deem advisable in the interests of the Association.'

V. Development and Business Methods of Northern Alberta Dairy Pool Limited

"(1) As previously stated this Association immediately on its incorporation on June 30, 1928, procured facilities for handling the products of its members. It first purchased creamery equipment from Alberta Cooperative Dairy Producers Limited, then constructed a creamery and milk plant in Edmonton as hereinbefore referred to, and at the same time commenced manufacturing ice cream.

"(2) In April of 1932, the Association purchased the plant and equipment owned by Wetaskiwin Dairy Pool Limited at Wetaskiwin. In taking over this creamery the Association assumed a loan made under the Cooperative Marketing Associations Guarantee Act amounting to \$7,650.

"(3) In the spring of 1936 the Association purchased a creamery at Sedgewick from the Sedgewick Creamery Company Limited and at about the same time purchased a cheese factory at Thorsby, Alberta.

"(4) In the spring of 1938 the Association built and equipped a new creamery at Andrew, Alberta.

"(5) In the spring of 1939 the Association purchased a creamery from the Edgerton Cream Company Limited at Edgerton.





"(6) In the early part of 1942 the Association constructed and equipped a cold storage plant at Vancouver, British Columbia.

"(7) On the 1st of January, 1944, the Association purchased a creamery at Bonnyville, Alberta, and on February 1, of the same year it purchased eight creameries and cheese factories from Burns & Company Limited at the following plants:

Leduc	Wetaskiwin	Bawlf	Hay Lakes
Millett	Camrose	Daysland	Round Hill

and on the 1st of November, 1944 it purchased ten creameries and cheese factories from Burns & Company at the following points:

Westlock	Vegreville	Onoway	Edmonton
Holden	Vermilion	Redway	
Manville	St. Paul	Bruderheim	

In order to finance these last purchases from Burns & Company Limited the Association arranged a loan of \$300,000 under the provisions of the Cooperative Marketing Associations Guarantee Act.

"The total amount of obligation incurred, apart from the Edmonton plant, was approximately \$700,000. Of that amount \$300,000 was provided by guaranteed loans made under the provisions of the Cooperative Marketing Associations Guarantee Act and the assumption of the aforementioned loan in connection with the Wetaskiwin property of \$7,650.

"In connection with the purchase from Burns & Company Limited of the eighteen creameries above mentioned, the Association feels that it should point out to your Commission that this was not the result of any fixed policy on the part of the Association or of its wish to acquire additional creameries. The facts simply are that Burns & Company Limited, as a matter of policy, decided to dispose of its country creameries. On



learning of that fact the Association felt that, looking to the long future of its business, it would be in the interest of its members to acquire these creameries rather than have them get into the hands of some other company which might, on account of having a stronger financial position, be a strong competitor. The Association heard that some large eastern concerns wanted to come into the province and felt that in the interest of its members it should take the opportunity presented and acquire the creameries. The Association would have preferred to delay the purchase of the last ten creameries from Burns & Company but it was impossible to accomplish such a delay. The Association discussed the situation with representatives of the Provincial Government who encouraged it to make the purchase. Arrangements were made for a loan under the terms of the Cooperative Marketing Associations Guarantee Act as above mentioned.

"(8) 'From its inception up to 1936 or 1937 membership in the Association was founded entirely upon its members signing the standard marketing agreement. Under the terms of the agreement as stated above, the relationship between the Association and its members was primarily one of agency. By 1937 or 1938 the business of the Association had become fairly well established and as a matter of policy the association commenced to pay less attention to the necessity of having contracts signed by members.' It then began to substitute a standard application form provided by section 39 of its articles of association. It continued, however, to carry on its relationship with members on an agency basis. At a still later stage in 1939 the Association was confronted with the problem of accommodating many shippers who did not wish to be bound to deliver all of their product to the Association for a fixed period of time.





To meet this problem provisions were made by amendment of the Articles of Association for associate members. Associate membership continues at the pleasure of the directors and it is open to any person engaged in the production of products handled by the Association who wishes to market the same on a cooperative basis. Such person becomes a member by paying the membership fee and delivering any of his products to the Association. An associate member to the same extent as an ordinary member is entitled to receive and participate in any initial, interim or final payments or other distribution of the proceeds of the sale of the products handled by the Association after payment of the necessary operating expenses and setting up of necessary reserves and also has the same property rights as an ordinary member. In other words the Association is under the same obligations to an associate member as it is to ordinary members. Associate members and ordinary members have equal rights except that it is only an ordinary member who has voting rights.

"By way of explanation of the changes that were made to accommodate a producer, who did not want to bind himself to deliver his products for a fixed period of time, it must be remembered that the war has created some very difficult problems affecting membership of dairy and livestock cooperatives as well as those handling wheat. The demands of the government have increased production and the inducements offered by it to bring about such increase, caused many grain farmers to enter, to a greater or lesser extent, into production of livestock, milk or cream. A great many of such producers had no intention whatever of continuing such production permanently and as a matter of fact, with better grain prices, many such producers have already reverted to grain farming.



It was essential however that their products be taken care of in some way and membership provisions had to be adjusted accordingly.

"(9) In connection with the distribution of milk in the city of Edmonton the Board of Public Utility Commissioners assumes to fix minimum prices which shall be paid to the producer and also minimum prices for which milk shall be sold to the consumer. The object the policy of this Association is to return to the producer as much as possible of the margin allowed by the said Board for distribution costs and at the same time to process and market on behalf of its members any surplus product not sold from delivery wagons. Generally speaking on taking delivery of milk from its member producers and Association pays over to them on delivery as an initial payment, the amount fixed by the said Board, which amount is of course the then current milk price for the Edmonton district. In this respect it does not differ in any material way from its competitors. The chief competitors of the company are Edmonton City Dairy Limited and Woodland Dairy Limited. All companies distribute milk and cream by delivery from house to house as well as distribution through stores, restaurants and other similar outlets. The Association admits that there is a marked similarity between its methods of carrying out this part of its business to that of its competitors. There is this important difference however, that in addition to its initial payment the Association is bound to return to its member producers proportionately any earnings made in connection with the business.

"(10) The Association manufactures into butter or cheese the milk or cream delivered to it by its members and not distributed as fluid milk. In connection with the creamery





in its business the Association makes an initial payment to the producer upon delivery of his cream. This initial payment is determined from time to time by the management and generally bears a close relation to current prices, though usually about a cent less.

"(11) The business done with non-members amounts to less than twenty per cent of the business done with members calculated on the basis of the fiscal year ending December 31, 1943, taking into account all possible factors in calculating such percentage.

#### VI. Information Respecting Finances

"(1) Though the Association is empowered to make deductions from the initial payments made to its members it has never exercised that power.

"(2) In December of each year it makes distribution of surpluses to its members. It should be noted that though the Association's fiscal year ends the 31st of December, for the purpose of distribution, it makes a cut-off as of the 31st day of October in each year and carries forward the surplus of the last two months of the year in its annual balance sheet. Surplus earnings are distributed fully each year, the final settlement taking the form of two documents, one being a cheque for the cash amount of such distribution and the other a reserve share certificate entitling the member to that part of his share, in the annual distribution, retained by the Association. All but the last six issues of such certificates have been redeemed. Up to the end of the fiscal year ending December 31, 1943 cash dividends have been paid out to the amount of approximately \$700,000. In making distribution of surplus it should be pointed out that the Association keeps separate accounts in three departments concerning fluid milk,





cheese and butter respectively.

"(3) The balance sheet of the Association makes provision for the usual reserve for depreciation and bad debts. The full amount of such reserve belongs to the members and is distributable among them along with the other assets of the Association in proportion to their holding of Reserve Share certificates. Depreciation is run off at rates equivalent to those allowed by the Income War Tax Act and reserve for bad debts is calculated annually on a fair and reasonable basis after due consideration of accounts receivable.

VII. The Association in Relation to the Income War Tax Act and the Excess Profit Tax Act

"(1) From the foregoing it would appear:

""(a) That the Association is one of the farmers or dairymen.

(b) That it is organized on a cooperative basis under the provisions of The Cooperative Marketing Associations Act of the Province of Alberta.

(c) That it acts as factor or agent only to market the produce delivered to it by its members.

(d) That it is obligated by the provisions of its Memorandum and Articles of Association and contract, to pay to its members the full proceeds of the sale of such products less only operating expenses and necessary reserves.

(e) That it does in fact allocate proportionately each year among its members the full proceeds of such sales, less only necessary operating expenses and necessary reserves.

(f) That the volume of business with non-members does not exceed on any basis of calculation twenty per cent of the business with members. For these reasons the



Association has consistently maintained that it is exempt from taxation under the provisions of Section 4 (p) of The Income War Tax Act. The Association is bound to account to its members with respect to all moneys received from the sale of their products and to pay to each his proportionate share. There is therefore no profit to be taxed.

"(2) Being exempt from Income tax the Association is also exempt from excess profit tax.

#### VIII. Conclusion

As stated at the outset the development of cooperative enterprises for handling dairy products had its origin in the very distressed and difficult conditions existing in the early 20's. Unquestionably farmers were perturbed about the decline of prices which then took place. A great deal of suspicion existed on the part of each producer of milk and cream that such reduced prices did not reflect the value of his product even in times of depression.

"This Association has been in business for over sixteen years and has had the satisfaction of returning to its producer members a higher return for their products than has been received by most producers in Western Canada. It feels that the greatest contribution it has made has been the sense of satisfaction and security developed among its members, It believes that its influence has had a good effect on the position of producers generally in that better prices have been paid by both cooperative and non-cooperative concerns.

"Dated at Calgary, this 19th day of January, A.D. 1945.

"Respectfully submitted,  
Northern Alberta Dairy Pool Limited,  
Per R. Stanley, Manager."





BY MR. MILVAIN:

Q. I want to ask you one or two questions in connection with certain matters raised in the preceding brief. You will remember that the suggestion was made that cooperative concerns were spending enormous amounts in advertising and propaganda. In so far as your association is concerned, what do you know about that?

A. I do not consider that we spend enormous sums in advertising or propaganda.

Q. How much would you spend annually? A. It would not be over \$7,000 a year.

Q. And on the basis of your last year's operations, what was the total turnover? A. A little over three and a half million dollars.

Q. At the time Mr. Winspear was dealing in his brief with your position in 1940 with respect to non-member business he pointed out that \$800,000 worth of butter had been dealt with and drew the conclusion that you were doing business to the extent of thirty-seven per cent with non-members. What have you to say with respect to your business in that regard in the year 1940? A. In giving the answer, I believe that following the submission by Mr. Winspear and his associates to the Income Tax Department in Ottawa in 1941 the Income Tax Department had an inspector call on our office shortly after to investigate our operations. We discussed with him the whole question and after he returned he wrote a letter to us and we replied setting out that in that year, according to our figures, we had done non-pool business to the extent of 14.16 per cent, and we have not heard from the Department since that date that these figures were not acceptable. As far as we know they have been accepted.



Q. It is a fact about the \$800,000 mentioned by Mr. Winspear; that is approximately correct; but what had been left out was the other business in addition to that?

A. That was not the total.

Q. In connection with the purchase of creameries made by your association, it has been suggested in the brief submitted by Mr. Winspear that you were developing along monopolistic lines. Tell the Commission the circumstances surrounding your purchase of the Sedgewick Creamery mentioned on page seven of your brief. In the spring of 1936 you purchased that creamery? A. What do you wish to know?

Q. Whom did you buy it from? A. From the Sedgewick Creamery Company Limited.

Q. Did they come to your or did you go to them?

A. It was about fifty-fifty. We did not make any approach and they made the suggestion that some day they would sell it to us, and for a year or so we got together.

Q. Who operated that creamery? A. Mr. Hay.

Q. What did the manager do following the purchase?

A. He remained as manager of our plant. He wished to join the organization and one of the conditions of sale was that he remain as manager.

Q. You have overlooked the first purchase from Wetaskiwin. Was that a cooperative concern? A. Yes.

Q. How did you come to take it over? A. They got into difficulties and asked us to give them supervision and take over their organization and operate it. They wanted to get into our larger organization.

Q. In 1938 you built a new creamery at Andrew?

A. Yes. We had a demand from producers in that area to build a plant. As a matter of fact the producers built the plant



and were operating it and it was absorbed into our organization about a year later.

Q. In the spring of 1939 you purchased a creamery at Edgerton. What were the circumstances?

A. That was owned by Mr. Hay.

Q. The same man that ran the Sedgewick creamery?

A. Yes. He asked us to take that creamery over because it was close to our territory where we were operating.

Q. Going back to the question of advertising, Mr. Winspear was making the point, or he assumed, that you were under an obligation to take five per cent of your surplus and allocate it to advertising. Do you know the provisions?

A. That is not required by our organization under the Alberta Cooperative Marketing Act.

Q. That provision is found only --

A. In the Associations' Act. It is not five per cent.

MR. PARKER: Perhaps Mr. O'Connor would like to ask a few questions.

BY MR. O'CONNOR:

Q. Dealing with page one of your brief, in the third paragraph, you say: "The second zone, occupied by Central Alberta Dairy Pool, centres on the city of Red Deer." What has happened is that the province has been divided into three zones or areas? A. Yes.

Q. Taking the Northern, the Central as the middle, and the Southern; and there is no competition between those pools because they very carefully allot an area to each?

A. Yes.

Q. You were carrying on a poultry business as well?

A. Yes.

Q. And when the poultry producers' pool was formed, each of these three dairies turned over their poultry business to





the new pool? A. We did.

Q. I think the others did too. So that every form of competition as between the pools is eliminated?

A. I don't think that is correct.

Q. What competition is there? A. I don't think the Central Dairy Pool have turned over the business to the Alberta Poultry Producers Limited. They are operating separately.

Q. Do you subscribe to the Co-Op News? A. Yes. I am referring to the present time.

Q. What I am stressing is that you have separate areas and you keep within the boundaries of those areas so that there can be no competition as between the pools themselves?

A. Correct.

THE CHAIRMAN: Is there any connection between these three pools -- interlocking directorates?

WITNESS: No.

THE CHAIRMAN: They are entirely independent?

WITNESS: Entirely independent. We assist in the management of the Southern Alberta Dairy Pool but there are no financial arrangements or interlocking directors.

BY MR. O'CONNOR:

Q. This company was incorporated in 1928. Is that approximately correct? A. Correct.

Q. At that time each of the members entered into a contract to supply their products? A. Yes.

Q. And you carried on on that basis. From 1928 to 1936 did the shippers also apply for membership? Was there any obligation as to membership apart from the contract?

A. Not at that time. They signed contracts.

Q. So that from 1928 to 1936 they signed contracts and there was no membership obligation?



A. Correct.

Q. To start with, they all signed a contract, A. Yes.

Q. When did they stop signing contracts? A. They have not stopped signing contracts.

Q. When did the practice of signing contracts dwindle down? A. You mean, when they started to use the application for membership instead of signing a contract?

Q. I was asking you about contracts. You started with everyone signing a contract and you ran along like that for some years, "and though the Northern and Southern Pools have abandoned the practice as a basis of membership" -- so that they did abandon it. Contracts were not signed?

A. We do still sign contracts. We have two forms.

Q. The majority of them do not sign contracts?

A. I cannot tell you the year we started in to use what we call the application form for membership. It would be between 1937 and 1939.

Q. I can refresh your memory from the brief. On page eight you say: "From its inception up to 1936 or 1937 membership in the Association was founded entirely upon its members signing the standard marketing agreement. Under the terms of the agreement as stated above, the relationship between the Association and its members was primarily one of agency. By 1937 or 1938 the business of the Association had become fairly well established and as a matter of policy the association commenced to pay less attention to the necessity of having contracts signed by members." From 1928 up to 1937 or 1938 you had contracts signed? A. Yes.

Q. By the majority, would you say? A. Yes.

Q. Are you sure of that?

A. No, I could not just say. I never actually checked it, but





taking the volume of business done it would be the majority.

Q. Is it possible to check it? A. Yes. It is possible to check it from year to year.

Q. As to the number that signed contracts and the number that did not sign contracts? A. That could be done.

Q. Could we ascertain the number of those who signed applications for membership and those who did not?

A. That might be a little difficult because we treat them all now as members and they are regarded as members.

Q. Whether they apply for membership or not?

A. You are distinguishing between signed contracts and the application forms? We know the ones that have not signed the application forms; but as between the ones that signed the contract and the ones that signed the application it would not be possible to ascertain the exact number. We know the combined number, and we know the number that have not made application for membership.

Q. You have three classes: Those that apply for membership, that is those that sign the application form --

A. Yes.

Q. And those that sign the contract? A. Yes.

Q. Then you have those who sign neither membership application nor contract? A. Yes.

Q. Is it possible to segregate those three classifications over this period of time, or can you tell me anything about them? Take the year 1937 or 1938. You commenced paying less attention to the necessity of having contracts signed. Is that still the practice? A. Yes.

THE CHAIRMAN: What is the reason for that? Why did you abandon the contract form -- because you were more successful?

WITNESS: We did not think it was so necessary to have contracts -- under which the producer would be compelled to



deliver his full production to us -- as it was in the early part of our organization. In the early part of the organization we had to have a certain continuity of supply and by having contracts they were obliged to deliver to us. We felt that we could make a success of it and then we got to the point where contracts were not so necessary as they were when we first organized.

THE CHAIRMAN: You assumed that they would carry on as before without a contract?

WITNESS: Yes.

BY MR. O'CONNOR:

Q. Would that apply equally to the application for membership? What happened to the applications? To start with, you did not have applications at all but contracts. When did you start to have applications for membership?

A. Around 1938 or 1939.

Q. Do you still continue the applications for membership? A. Yes, we do.

Q. When did you admit members without application? When did you start that practice? A. In 1944.

Q. Without application? A. Yes, without application.

Q. Is that 1944 or 1940? A. 1944.

Q. You admit them without application? A. You don't need to sign an application to become a member now.

Q. What do you term those members? A. There are two types of members now.

Q. Contract? A. No, ordinary member and associate member.

Q. When did you create the class called associate members? A. Around 1940.

Q. So that at least as far back as 1940 you were admitting members without the application form? You treated them as associate members?



A. Not before 1944.

Q. Well, in 1940, from then on, these were called associate members?

A. Only those who signed the application form.

Q. Associate members? A. Yes.

Q. Have you read over the resolution? We are not talking about the same thing.

A. No, I was wrong. In making the application we treat that as a contract signed.

Q. Aside from any contract, any producer who ships goods to you automatically becomes an associate member?

A. Only from 1944.

Q. No, 1940. I have it here set out -- April 5, 1940.

MR. MILVAIN: You have the witness slightly confused. You know as well as he does that the amendment was filed in 1944, but its provisions revert back in date to 1940.

MR. O'CONNOR: You are confusing the witness. A resolution was passed in 1940. It is here stated that on April 5 1940 "an even more significant change was made." Membership was divided into two classes, contract members and associate members? A. I have it here now. That is correct. We put through an amendment on March 28, 1940 creating contract and associate members. By shipping their cream they automatically became members in 1944, but in 1940 we had contract and associate members.

Q. Have you the resolution? A. I haven't got it, no.

Q. Here is the resolution, dated 1940. It states that any person engaged in the production of dairy or poultry products, "wishing to market the same on a cooperative basis shall, upon delivering any such product to the association in any year, be deemed to be an associate member for that year without paying any membership fee and without signing the current standard





marketing contract." A. Yes.

Q. That was 1940. Up to that time they had been signing a contract. Up to 1936 they had been signing contracts and that was gradually put into the discard, and then in 1940 you opened it wide to the public, and anyone that shipped to you automatically became an associate member? A. Yes.

Q. Without even knowing that he was a member. He would not know he was a member?

A. He would have reasons to know. Maybe there were some who did not know, but when they ship to us we figure that they know they are shipping to a cooperative organization, and we have ways and means of notifying them through our publication of that fact.

Q. It might at least be a surprise to the shipper to find himself a member of the pool. Then we come to 1944 and the resolution that was passed then. Have you a copy of it?

THE CHAIRMAN: How many associate members had been acquired from 1940 to 1944 in that manner, do you know?

MR. O'CONNOR: No, Mr. Chairman. I was going to ask the witness for a summary. There are contract members and associate members. Then there are those who prior to 1940 did not sign an application and those who did not sign a contract. There are these four classes throughout the years. I will ask the witness to get that for us when the commission adjourns.

BY MR. O'CONNOR:

Q. Then we come to 1944, March 9, on which date there was a resolution amending the memorandum of association. I think we should have also an idea as to the amount of business that was done in each year with each of these groups. To say that you have not exceeded twenty per cent of business with non-members is ludicrous if you make everyone in the country



a member of your organization. If everyone who ships to you is a member you cannot do twenty per cent of your business with non-members because they are automatically all members.

A. Do you wish me to reply to that?

Q. Yes, by all means. A. Well, the fact is that they are all treated alike and receive the same dividend. The fact that the money is paid to them before the end of the year -- we carry over no surplus excepting the odd thousand dollars -- would mean that we are treating all producers on the same basis as far as surpluses and final payments are concerned, and it does not make any difference whether you have contract signers or not as long as you have paid the money on the basis of quantity delivered.

THE CHAIRMAN: Does the associate member vote?

WITNESS: No; that is the only privilege he does not have.

BY MR. ELLIOTT:

Q. Why is that? A. It was felt that they should at least sign the regular contract or application in order to have the privilege of voting.

THE CHAIRMAN: Do you notify the shipper that he has become a member after he ships to you? I am speaking of the associate member. Do you notify him or must he find out for himself?

WITNESS: At the end of the year we enclose with the final payment an application form suggesting to him that he sign that and then he will have the right to vote.

BY MR. ARNASON:

Q. Do you think it would make any difference to the association if the associate members were given the right to vote along with the ordinary members? A. No.

Q. Without having to go through that procedure?





A. No; it would not make any difference.

THE CHAIRMAN: You know section 4(p) of the Income Tax Act?

WITNESS: Yes.

THE CHAIRMAN: How do you treat the twenty per cent clause in relation to these associate members -- or do you take the twenty per cent into account?

WITNESS: We consider that every person who ships to us is a member.

THE CHAIRMAN: Then there cannot be any question about twenty per cent?

WITNESS: No. We maintain that one hundred per cent of our producers are members.

THE CHAIRMAN: By making them associate members?

WITNESS: Yes.

BY MR. O'CONNOR:

Q. You told the Commission that the associate member had no right to vote, and that was the only difference between the associate and the contract member? A. Yes.

Q. Then you come along to March 9, 1944 when you pass a new resolution, as you will see on page 11A of our brief. You say in that resolution: "An associate member to the same extent as an ordinary member shall be entitled to receive and participate in any initial, interim or final payment, or other distribution of the proceeds of sale of the products handled by the association after payment of operating costs, and after setting aside such sums for a reserve as the directors may deem advisable and shall have and enjoy, and shall be deemed to have had since the 5th day of April, A.D. 1940, the same property rights, but an associate member shall not be entitled to vote or take part in the election of, or act as, a delegate to any general meeting of the association."



Can you tell me why the directors passed that resolution?

A. The delegates at the annual meeting passed that resolution not the directors.

Q. Why? A. Because, as we have been progressing from year to year, we realize that we have to keep our constitution in line with the conditions existing at the time, and we felt that these people had produced their portion of the earnings and should now have the rights there indicated. It is like any private organization that sees fit to change its constitution from time to time. We did that.

Q. Let us be quite open about it. You say you changed the constitution to fall into line with the times, and "the times" are the income tax?

A. That is not the reason.

Q. Were you not endeavouring to create, by that amendment an obligation to pay? A. We had that obligation to pay before that resolution went through.

Q. To the associate member? A. Definitely.

Q. You did not read the prior clause. He was only an associate member.

A. He had not property rights but he had the right to honour the certificates at some future date.

Q. That is the point. Under your first amendment it is provided that associate members shall be entitled to receive or participate in any dividends distributed by the Association during the year in which they were members but shall not be entitled to or have any property rights in the association?

A. Yes; but that only means the distribution of earnings during that year.

Q. He had no right to the surplus in that year; it was carried into the next year.



A. We have an obligation to pay the certificates in the hands of our associate members.

Q. Correct; but no obligation to pay them any part of the surplus that was carried forward.

A. Yes; but I did not make that statement.

Q. So that from 1940 to 1944 he had no interest in the property of the association and he had no right to receive any part of the surplus that was carried forward?

A. Correct.

Q. And in 1944 you passed an amendment to the effect that he should have, and should be deemed to have had, since the 5th of April, 1940, the same property rights presumably as the others. Why did they want to give him the same property rights as the others?

A. Because he had a part in creating this surplus during the years he was a member and there is no reason why he should not be entitled to those property rights. The delegates came to the conclusion that these members had the same right as the others who had signed the contract, and I think that is fair.

Q. I suggest that what you did in the operation of the pool was to open it up to any producer in the country. You let him ship his goods and automatically made him a member, and he did not even know he was a member. Then you thought of the income tax Act and went back in 1944 and tried to create an obligation to these associate members?

A. That is not correct.

Q. That is your evidence before this Commission?

A. Yes.

Q. And the only explanation you can give me for having attempted to antedate these property rights is that at that time they felt that the associate member was entitled to the





rights in question? A. Yes.

Q. That is the only explanation you have? A. That was discussed for several years before it was actually passed. These members in the early years thought they should have certain protection, and as the organization developed we came to the conclusion that it should be a hundred per cent pool and that everyone who shipped to us should participate in any of the payments.

Q. Did not Mr. Fitzpatrick tell you that you should keep your skirts clean in reference to this section by making sure-- I am using his language as I remember it -- that there was an obligation on the part of the pool to pay its members any balance? Did he not warn you about that?

A. He did not warn me about it.

Q. He did not tell your pool members about it?

A. I do not know.

Q. He did not tell you that it was essential that the obligation be created to pay? A. I know that in section 4(p) you are obliged to do certain things.

Q. And you knew that was so in 1940, 1941, 1942, 1943 until March 1944. And in 1944, in March, you give them property rights and try to date it back?

A. I may have a certain opinion as to whether or not that is an infringement of 4(p).

THE CHAIRMAN: Under the present set-up it is impossible to commit an infraction of the twenty per cent clause. You cannot do it.

WITNESS: Yes.

THE CHAIRMAN: Did that outlook have anything to do with your change of plan?

WITNESS: No doubt.

THE CHAIRMAN: I beg your pardon?



WITNESS: I think that would be correct, yes; but that is a matter of rights which had been discussed for several years and gradually we conceded this point and the other until we made it a hundred per cent. But it was not a deliberate move.

BY MR. O'CONNOR:

Q. You bought manufactured butter from other pools from time to time? A. Correct.

Q. And under your constitution that would make the other pool or private company a member of your association?

A. They are not producers.

Q. What does "producer" mean in that sense?

A. Producer of the raw product.

Q. Why raw products? What about the producer of butter. Do you treat them as members? A. Who?

Q. The other pools from whom you bought butter.

A. No.

Q. Why? A. We don't treat them as members because they don't produce cream.

Q. They produce butter? All these other private companies that shipped butter and stuff to you, they were not members?

A. No.

Q. So far as these associate members are concerned, can you show me where there is any obligation on your part to pay them anything outside the participation certificates they hold in their hands? A. A wind-up would take care of their by-law because we are holding that in trust.

Q. Because of the resolution of 1944? A. Because the constitution says that all our members who are shipping have property rights.

Q. And that is the only obligation on you to pay -- because of that? A. I think that in law they could get their rights under our constitution.





Q. An associate member ships products to you and automatically becomes a member and he does not even know; and you say that by antedating this resolution you have now created over the years an obligation to pay him anything more that comes out of it. That is the fact. But if you can enter into a contract of that kind you can change that resolution to-morrow morning. A. Sure.

Q. And he would not know it had been changed?

A. It has to be passed by those whom he elects as delegates to attend the annual meeting. The annual meeting passes the resolution and it is public.

Q. Yes, but he has no vote. He does not know he was a member. A. How do you know he doesn't know?

Q. He ships his products and automatically becomes a member. He did not know he was a member in 1940; he did not know he had property rights, and if you changed that resolution to-morrow he still would not know. Is that the position?

A. I don't agree that he does not know. There may be a small percentage who do not know, but the majority of associate members must know because it has been made public and they had notices in December telling them what the position was. They know that on signing the application form they can return it to us and become associate members.

The Commission adjourned until 2.15 p.m.

Afternoon Session

The Commission resumed at 2.15 p.m.

RUSSELL STANLEY recalled:

BY MR. O'CONNOR:

Q. Mr. Stanley, according to the brief you have now about twenty-five plants and facilities including Vancouver. Is that right? A. Twenty-five including Vancouver.



Q. And of these you have built two, and you bought one that had just been built? A. We built two, yes.

Q. That would leave twenty-three that you had purchased from somebody else, one of which I believe was a pool before you bought it? A. We really built the Edmonton one, too, and that would be three.

Q. Anyhow, there were twenty-one or twenty-two that you bought out of the twenty-five; and there was no new service given in those particular districts. You bought out existing services? A. That is correct.

Q. And if I have followed your brief and your statement correctly, the total cost of the buildings would be about \$1,100,000? A. Around that figure.

Q. That is what you spent. Mr. Winspear gave an estimate this morning that if you had been taxed as a private corporation, your tax in the last four years would have been approximately \$1,000,000? A. That is misleading.

Q. It may be misleading but it is in evidence. Perhaps you will deal with that later. However, out of that amount you would have paid out \$1,000,000 which in any event you have saved in taxes. Put it that way.

A. No, I will not put it that way.

Q. If he is right, it should have been paid. In any event you have not created any new public facilities, have you, in those twenty-three cases? A. No; we have just taken over others.

Q. You have taken over existing facilities?

A. And improved them.

Q. At a cost of \$1,000,000, which is Mr. Winspear's estimate of what you have saved. Under the provincial government regulations now, it is impossible for anyone to get a



licence to operate at any of these points where there are existing facilities to-day? A. I do not know.

Q. You don't know that at all? A. They try to control it, but that is up to the committee that decides on licences

Q. Have you not been present when these discussions have taken place? A. They make an application for a licence; whether it is granted is up to that committee that is appointed to deal with the matter.

Q. Doesn't that Committee go one step further and submit to the pools any application that is made to see whether they want it granted? A. Not to my knowledge.

Q. They never submit them to you? A. Not to my knowledge.

Q. If I am correct, I noticed in one of the speeches you made, speaking about monopoly, you said that "this is territory which we now control." Do you remember that? A. I do.

Q. There is no question about it, that you do now control that territory and it is next to impossible for anyone else to come and compete with you? A. I do not know that definitely.

Q. You say you now control it. A. In the future someone may be able to come and set up in opposition.

Q. You say that you now control all the territory on the Canadian Pacific Railway south to Wetaskiwin and east to the Saskatchewan border, after making these purchases from Burns and Company Limited. Would you not say that in that district you now have an absolute monopoly? A. We have at the present time.

Q. Here is your statement. Will you look at it. I refer you to page one under the heading of "comparative balance sheets,





assets, current cash, bank accounts receivable, inventories, et cetera." What does "et cetera" include?

A. That is just a general term.

Q. Does it include victory bonds? A. Yes; I would say it did.

Q. Would it include anything besides victory bonds?

A. No, not to my knowledge.

Q. It means victory bonds?

A. The auditor prepared that; I don't know. Any other items must no doubt appear in there.

Q. It is not a new name for victory bonds?

A. You don't always name every item that might be covered there.

Q. Further down there is a reference to field work. What does that consist of? A. There is \$3,000 which we set up each year to cover what we estimate is the cost of field work of the man who contacts the membership, his salary and operating expenses being \$2,700 of that; it is a reserve that was set up some years ago in Vancouver for any contingency that might develop.

Q. Dealing with the members' equity in the last item, with reference to your membership reserve for final payment, is that payable to specific persons? A. Definitely, yes.

Q. How do you carry them? Is there a separate account for each? A. Yes. We have a record of each member's shipment of cream.

Q. And keep a separate account of each? A. Yes.

Q. In the participation certificates, is the same thing true, that they are payable to specific persons?

A. Yes. It represents certificates in the hands of members.

Q. And in the record you show a ledger sheet for each



one? A. A card for each member.

Q. Take the last item on the page, surplus. Is it allocated to the members? A. No, that surplus goes up and down each year. That is the surplus that is accumulated. That has not been allocated since we commenced business.

Q. It is not capable of allocation? A. You cannot deal in fractions in your final payments -- in fractions of cents in making final payments. One year you might have to take some out of the surplus in order to meet the total amount you pay out as final payments. You will note that in 1941 we paid \$4,116.63 over and above what the surplus was for that year.

BY MR. PARKER:

Q. \$41,000? A. No. Our surplus was reduced that year \$4,116, in 1941.

THE CHAIRMAN: Which sheet are you looking at?

WITNESS: That is the third.

BY MR. O'CONNOR:

Q. How much of this amount is the equity of each individual member? A. In winding up that would go into the value of the participation certificates. Whatever interest they had would be proportioned to the amount of certificates held by each member.

Q. And that surplus fluctuates -- it goes up and down? A. And you could not keep it otherwise.

Q. Quite so. So that if a member has an interest in it to-day his interest will not be the same interest a year from now? It varies as the amount goes up and down? A. Yes.

Q. If you suffered a loss, say, in 1943, would that loss be charged to the individual members? A. No. If we had a loss it would be only a small loss and it would have to be





absorbed by the surplus of \$15,000.

Q. Suppose it exceeded the surplus?

A. The way we operate, it is the duty of the management to see that we don't make losses.

Q. And we hope you won't. But if you were unfortunate enough to do so, where would you charge that loss if it exceeded that small surplus you have? A. What I meant by the previous statement was that we adjust the price we pay for cream in keeping with the value of butter.

Q. But suppose that at the end of the year you found yourself with a loss that exceeded that surplus, what would you do? A. We have never had that experience.

Q. But if you did have that experience, what would you do? A. We would likely see the loss coming.

Q. Let us assume that you did not and that you reached the end of the year. What would you do then?

A. I don't know. I don't know how it would come without our knowing that it was coming, and we would adjust prices paid to the producer to take care of losses.

Q. Suppose that at the end of the year you found you had a loss large enough to eat up the surplus, with a balance over, where would you charge it? If it ate up the surplus and you still had a loss?

A. Never having had that happen during our operations I would say it would be carried into the next year's operations.

Q. And where would it be charged in the meantime?

A. It would show as a deficit.

Q. And that is all. I do not know whether you are familiar enough with it to go on with that. It would not be charged to the individual members? Any loss you have ever had-- put it that way -- have you ever collected it from the individual members in the following year?



A. We have not had a loss, and not until we have a loss will we decide definitely just how to handle it. I don't know just how you would handle it.

Q. Your answer is that you don't know? A. Yes.

Q. As the surplus goes up and down the equity of the member changes, and you have this group whom you term associate members from year to year, and now you have the amendment. If you suffered a loss in one year it would be in the following year that it would have to be charged to those that had money in the concern-- the surplus first and then the members. There is no place else to charge it?

A. My personal interpretation of the Act as it is now would be that we do not necessarily need to confine our operations to the financial year, that it can be carried over and allocated at a later date or adjusted according to the financial position.

Q. If a member one year has an interest in the surplus and the next year is not a member -- let us assume that he dropped out -- his interest in the surplus of 1943, say, would be affected by a loss in 1944, in which year he might not be a member? A. He is always a member as long as he holds certificates.

Q. But suppose he does not supply goods to you. His interest is in the surplus of last year and in the participation. There is a loss suffered in 1944; then it must be taken out of that surplus. But he is not a member this year.

Q. He is always a member as long as he holds certificates, but he does not participate in any surpluses we have in any year in which he has not supplied us with butter fat.

Q. We don't agree on what sort of member he is. According to the memorandum of association, associate membership is an



annual membership only, and such members "shall be entitled to receive and participate in any dividends dispersed or distributed by the association during the year in which they are members, but shall not be entitled to or have any property rights in the association." If he is a member for one year only and a loss is suffered in the following year, whatever equity he had in that surplus, if he had any, could be wiped out. It would have to be. This statement that you have given me, is that the form in which you give it to your members?

A. No, we do not. We give it to the delegates at the annual meeting, a full statement of operations.

Q. How many delegates? A. In the neighbourhood of from fifty-five to sixty.

Q. Out of 8,700? A. Yes.

Q. Are they actually given statements?

A. Yes, to take back to their districts.

Q. But the member himself does not get any statement?

A. That is correct.

Q. Is that the statement, in this form in which you have given it? Are these the items and the figures?

A. No. That is just a consolidated statement. A comparative balance sheet.

Q. You have not given us what you usually get? This is not what your auditor gives you?

A. The auditor gives me that.

Q. But it is not the annual statement? A. No.

Q. It is not signed by the auditor.

A. I noticed that after it was filed. He prepared it.

BY MR. ARNASON:

Q. Can you give us a statement signed by your auditor?

A. Certainly.





BY MR. O'CONNOR:

Q. Will you turn to page three of the statement. You will find there a reference to manufacturing costs, manufacturing expenses, and underneath that, "gross". Do you see it? A. Yes.

Q. Gross what? A. Well, that should be net.

Q. Net what? A. After you have your sales.

Q. Gross is an adjective; I want to know what it qualifies-- gross what? A. That is what is left after you have paid for cost of material and manufacturing, actual cost of manufacturing the product.

Q. But gross what? A. That is what is left. I would say that is an error in using the word gross. I would say that is net, left after you take away from your total sales the amount of cost of material and manufacturing expenses.

Q. The auditors tell me that in all balance sheets they have ever seen in their lives that word "gross" is followed by the word "earnings". It is an adjective -- gross something or other -- and somebody has left out the word earnings. Would you not think so? A. It is not correct as it is. It should be --

Q. Should be what? Well, there is one more item on page three, "sundry revenue, \$3,000". What is that? A. In some of our plants we have revenue from houses that we own, occupied by the management. There are also charges made by branches that store butter on behalf of the head office, and that is revenue to those branches for storing the butter; and they might have commissions on the handling of poultry, eggs or ice cream, which they handle for head office account. That is an accumulation of sundry revenues within the organization.



Q. And that would include interest on Victory bonds?

A. I could not say definitely.

Q. Where else would that go? It would not be under manufacturing costs or administration or overhead so that it must be under sundry revenue, because there is nothing left. Isn't that right? A. It should be in that item.

Q. And that item, including interest on Victory bonds, of \$15,000 finds its way down at the bottom of the page with a surplus of \$5,897? A. Yes.

Q. Which eventually reaches the surplus account?

A. The surplus account; correct.

Q. So that in the surplus account, to-day and over a period of years, you have included interest from Victory bonds?

A. Yes. It would eventually find its way there.

Q. Have you been negotiating in the last six months for any more creameries? A. No, we have not.

Q. Have you been approached? A. We have had one firm that is a cooperatives.

Q. In your brief on page eight you say that the association heard that some large eastern concerns wanted to come into the province, and felt, in the interests of its members, it should take the opportunity of acquiring a creamery. You heard from whom? A. I heard from the manager of the organization.

Q. He told you they were coming in to buy? A. They were interested.

Q. And on the strength of that you bought the Burns plant. What would the total purchase price be -- \$600,000?

A. Around that figure.

Q. On page nine of the brief, at the bottom, you say: "The chief competitors are the Edmonton, but all companies distribute milk and cream by delivering from house to house





as well as distribution through stores, restaurants and similar outlets. The association admits there is a marked similarity between its methods of carrying out this part of its business to that of its competitors, with this important difference, however, that in addition to the initial payment the association is bound to return proportionately any earnings made in connection with the business." Do you mean that the important difference is in the distribution of the earnings and not in the earnings? A. The distribution.

Q. Not in the earnings? I would say that the difference arises because you are bound to return to member producers any earnings made in connection with the business. That gets back to the old question of obligation. I don't want to press it because perhaps it is a legal question; but will you tell me on what you base any obligation. You say there is an obligation to pay these associate members. What do you base that on? A. Well, it is in their constitution.

Q. It is in the company's constitution, or the co-operative's? A. No; it is in our own constitution.

Q. The Northern Alberta Dairy Pool? A. Yes.

Q. But outside of that, where is the obligation? A. The obligation is that we are to pay to them anything that is left after we take care of cost of distribution and the advance price we paid for the products.

Q. The obligation then, if there is one, is contained in the memorandum and the articles and not in any contract or any agreement. It has nothing to do with membership because that type of member would not even know he was a member. It must be in the memorandum and the articles. That is the only obligation? A. We figure he has a legal right to demand it.

Q. A legal right to demand what? A. To demand his



interest.

Q. He could not sue, because the Act under which you are incorporated prohibits him from suing.

MR. MILVAIN: Where do you find that?

MR. O'CONNOR: I read it yesterday.

THE CHAIRMAN: What would he rest his claim on against the association?

WITNESS: On account of the constitution stating that we are to return to him the difference.

THE CHAIRMAN: The only argument you would have before the court is the constitution?

WITNESS: Yes.

BY MR. O'CONNOR:

Q. The Cooperative Marketing Association Act provides "The directors shall have power from time to time, by resolution, to pay over to the members of the association such part of the purchase price of the commodity or commodities so sold as they shall deem advisable, but such resolution shall not be deemed to create a debt due or payable by the association to the members or any of them."

A. In the payment or issuing of the reserve share certificates, it states there that we owe that money, and that is distributed every year. We give them a document, a certificate.

MR. MILVAIN: We cannot get into a legal argument now, but everyone is aware that there are equities in addition to the absolute legal right.

BY MR. PARKER:

Q. Just one or two questions. My task has been greatly lightened by Mr. O'Connor. With reference to that last question, Mr. Stanley, I have before me the certificate attached to your document. That is the one you were referring



to? A. Yes.

Q. What part of that do you rely on to say that you have to pay the certificate? It states that he has an interest in the reserves of the Northern Alberta Dairy Pool Limited to the extent of so many dollars. That is the phrase on which you rely? A. Yes.

Q. And nothing else? A. No.

Q. Come back to your financial statement. I see you carry as an asset goodwill in regard to Edgerton. How do you value that? It seems to have depreciated from year to year. What kind of asset is that? A. When we purchased that plant we set up what we thought was goodwill of \$2,500 and just depreciated it each year.

Q. You purchased physical assets? A. Yes.

Q. And the goodwill? A. Yes.

Q. Which you valued at \$2,500? A. Yes.

Q. And you have been depreciating that as the years go by? A. Yes.

Q. Do you carry the goodwill of any of the others? Take the Burns group. A. No goodwill in any of those.

Q. Why? Weren't Burns pretty good people with good connections? A. Yes, but it is a matter of setting it up.

Q. Why do you carry goodwill in respect of one and not the other? A. We thought it was not good business after we set this up. From there on we set it up as the total cost of the purchase instead of setting up goodwill.

Q. Did you in the Edgerton case pay something for goodwill in addition to the assets? A. We paid a lump sum of \$9,000.

Q. And goodwill was thrown in? A. Yes. In the agreement there was no statement.

Q. That is rather an imaginary asset?





A. That is correct.

Q. Come to the liability side, accounts payable outstanding, \$134,000. Does that include straight borrowings to help to finance some of these purchases?

A. At that time, back in 1943, it was all carried under our current account.

Q. Just an overdraft?

A. Just an overdraft.

Q. Take the end of the period now; it stands at \$134,000. What is it made up of -- overdraft?

A. Straight overdraft.

Q. Why do you call it banks and accounts payable?

A. It takes in banks and also accounts payable, the total of the two.

Q. How much is each? A. I am sorry, I haven't the breakdown.

Q. Have you an approximate idea? A. There was \$30,000 or \$40,000 overdraft to the bank at that time.

Q. What does the other \$100,000 relate to?

A. It would be \$100,000 and we would add \$34,000 for merchandise we had purchased.

Q. What kind of merchandise? A. Supplies.

Q. What kind of supplies? A. Boxes, salt and so on.

Q. Which you buy in the ordinary trade? A. Yes.

Q. Your theory is that the company does not buy these things; the members buy the supplies? A. Yes.

Q. In setting out in your brief the powers and objects of the society you state that you buy as factor and agent but you do not state in the memorandum, as I see it, that you have equal powers to buy and sell outright. You have that in your charter? A. Yes.

Q. And would you say that the purchase of these supplies was a power exercised under that clause of the



charter, namely, that you have the right to buy and sell to the extent that you do buy? A. Yes.

Q. When you sell a case of butter, which is enclosed in a box, I suppose the price is so fixed as to include the cost of the box plus a small amount for handling, so that when you sell butter you sell the box?

A. It is included in the price.

Q. Your explanation is that in form the association buys, but in effect and in substance it is the members who buy and it is the members who sell the butter. That is your theory?

A. Yes.

Q. Come to the third item of liabilities, capital loans from banks. In 1942 were these loans guaranteed by the government. A. Yes.

Q. They are all cleaned up now? A. The ones I mentioned in my brief.

Q. Through what system did you acquire the money which has enabled you to reduce the loans? A. There are two ways. One is through reserves for depreciation and the other is money represented by certificates in the hands of members.

Q. Do you use some of the so-called surpluses?

A. They would be there available for us.

Q. Do you from time to time use those surpluses to pay off loans? A. The fact that we have the surplus reduces our borrowings.

Q. Take the last item on the page, 1940. At that time you had a surplus of \$28,000. Was it your custom to take \$5,000 or \$10,000 out of surplus and pay it to the bank?

A. We would not put in an entry there through our books to show that we had used any of the surplus money. The money is in the bank account and reduces the overdraft.





Q. And the surplus too. If you had not paid off the bank \$10,000 the surplus would show that much more!

A. I do not follow you.

Q. Turn to the second sheet. I don't understand that -- membership fees.

A. Since we commenced operations the membership fees were included in our surplus and as they were never spent we took them out in 1943 and set them up to show that the money was on hand, \$8,186 odd.

Q. How did you calculate that amount of \$8,186.40?

A. By going through the previous year's deductions for membership from the farmers,

Q. That is, the type of members that Mr. O'Connor spoke of, the people who became members by the simple process of taking a fee and notifying them that they were members? A. Yes.

Q. That represents the amount you have collected in that fashion? A. Yes.

Q. What do you collect now? A. Fifty cents a member. I am not sure what it was on the start of the organization. For some years it was a dollar a member.

Q. I am not talking about the ones who apply to become members, or the man who became a member by signing a contract, but the ones who became members by reason of being notified?

A. That is fifty cents.

Q. So that this \$8,000 would mean 16,000 members?

A. It might mean a portion this year and a portion next year because the final payment may not have equalled the fifty cents.

Q. What is your fiscal year, the same as the calendar year?

A. Yes.

Q. Suppose a man for the first time begins shipping milk

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to you in March and continues to the end of the year. I understood you to say that he would be notified at the end of the year that he was a member, so that from March to December he would have no notice from you that he was a member?

A. That is correct.

Q. That is to say, according to you, so far as your books were concerned, and so far as your attitude to him was concerned, he would have been a member for nine months before the fact was brought to his attention? A. Yes.

Q. Why did you not notify him that he was a member after you sent him his first cheque? Why wait until the end of the year? A. Because it is a little simpler to do it that way than to be doing it all through the year, for the reason that there are new shippers coming in all the time and a shipper might make only one shipment. A cheque is issued for every can of cream.

Q. Every day? A. Yes.

Q. It would be more logical, when you sent him his first cheque, to take the fifty cents out and tell him he was a member? A. It is deducted from the final payment at the end of the year.

Q. There is nothing in the constitution to prohibit you from notifying him that he is a member after he receives his first payment? A. No.

Q. Coming back to the zone question. The province has been divided, by mutual agreement, into three zones. Who divided it? A. The three dairy pools.

Q. Did anybody else have anything to do with that?

A. No.

Q. What happens to a farmer who may be near the boundary between two zones and who for some reason has been allocated to the southern zone when he prefers to ship to the centre?



A. He has the right to do that.

Q. So that there is not much restriction put on him in that sense? A. No.

Q. In how many of these creameries that you have purchased -- twenty-three or twenty-four -- did you take over the same staff and management? In substantially all cases?

A. In all cases, I would say.

Q. Practically no change in personnel?

A. No change from the time they were taken over.

Q. Turn to page three at the bottom, the second last paragraph. You say: "It is probably safe to say that a very decided factor leading to the three organizations entering upon the manufacture of butter was the encouragement given by the government of the province of Alberta." You mean financial assistance given in guarantteing loans?

A. Yes.

Q. Anything else? A. No. We got no financial assistance other than that.

Q. Altogether, how much has the government guaranteed for you? A. \$300,000 at the present time.

Q. But all told? A. \$500,000.

Q. \$200,000 has been paid off? A. Yes.

Q. And \$300,000 is still outstanding? A. Yes.

Q. So that you have had considerable government assistance? A. Yes.

Q. And without that you would have found it very difficult to finance? A. Yes.

Q. Practically impossible? A. It would have been slower.

Q. Am I putting it too strongly when I say, practically impossible? A. No. We would have had to find similar loans from members.





Q. I suppose those loans were secured partly at the beginning, and as you acquired the other creameries?

A. Correct.

Q. Have you any knowledge of other creameries in the zone of the Northern which have changed hands from one private company to another private company during the period in which you have been operating? A. I know of two.

Q. Is that all? A. There may have been more, but those are all that have come to my attention.

Q. On page 7 of your brief you say: "In order to finance these last purchases from Burns & Company Limited the Association arranged a loan of \$300,000 under the provisions of The Cooperative Marketing Associations Guarantee Act." That is the Burns Company. The association arranged a loan of \$300,000 and that was guaranteed by the government?

A. Yes.

Q. That is just for Burns alone? A. That is the amount we had to borrow in order to finance it.

Q. You say: "The total amount of obligation incurred, apart from the Edmonton Plant, was approximately \$700,000."

A. That is from the time we started. The obligations in regard to all these plants, the Burns plants included, came to a total of \$700,000.

Q. Then were you right when you said that you raised the remaining \$400,000 without assistance from the government?

A. We financed \$200,000 in 1929.

Q. You financed altogether up to \$700,000? A. Yes.

Q. How much of that was raised initially by aid of guarantee from the government, all-told? A. There would not be any in that period.

Q. You don't quite understand me.



A. Are you asking about the \$400,000 -- where did we get it?

Q. Yes. A. From certificates in the hands of the producers, the money represented by certificates.

Q. Your total borrowings, which you had guaranteed by the bank, are \$300,000? A. Yes.

Q. Over your whole history? A. No. We had \$200,000 in 1929, paid off in 1942, and then we borrowed \$300,000 more.

Q. That makes \$500,000 altogether? A. Yes.

Q. And the total obligations were \$700,000? A. If you read that you will see that outside the Edmonton plant it was \$200,000.

Q. The total obligations, then, would be about \$900,000? A. Yes, that is correct.

Q. And you raised \$500,000 of it by borrowing on the strength of government guarantee. The remaining \$400,000 you financed yourself without assistance from the government?

A. That is correct.

Q. That is your own cash? A. Yes.

Q. One other question. On page eight you say: "Associate membership continues at the pleasure of the directors and is open to any person engaged in the production of products handled by the Association who wishes to market the same on a cooperative basis. Such person becomes a member by paying the membership fee and delivering any of his products to the Association." What has been your practice about terminating associate membership.

A. We have never terminated membership to my knowledge.

Q. What point was there in making that statement there? What were you trying to emphasize? A. I don't know why it should be put in in that way. It was because something out of the ordinary might happen.





Q. He was in jeopardy at all times of losing his membership and forfeiting his right to the reserve, being subject to the whim of the directors. Can the directors do that?

A. I believe they could cancel his membership.

Q. Without any reason given? I am not saying they do, but we are all human, you know. A. I think we would give him a reason all right why we would cancel his membership.

BY MR. ARNASON:

Q. In regard to the associate members, would you care to give us your opinion as to the possibility of carrying on the business of your association if, instead of considering each shipper an associate member inasmuch as he becomes a shipper of the association, you considered him a non-member until he had signed an application form? Would you care to give us your opinion as to the advisability or the feasibility of carrying on in that way? A. You mean by making a change so that he is a non-member until such time as you indicate? That could be carried on without injury in any way.

Q. Do you regard that as a more desirable cooperative practice? Do you think it is more desirable to do it that way?

A. I think we all wish to call a man a member who ships to us, and that is why we talk of ordinary members and associate members rather than of non-members. We like to consider them as members.

THE CHAIRMAN: You do no non-member business at all; that is as I understand it.

WITNESS: No.

BY MR. ARNASON:

Q. Could that practice be adopted by you? A. Yes.

Q. It would mean then that if a shipper did not sign the application form he would be classified as a non-member?



A. Yes; but we would not wish to classify him as a non-member

Q. I am speaking of a possible alteration in policy.

A. Yes, that could be done; but I would not like to do it.

BY MR. NADEAU:

Q. Do you send supplies to your members? A. No.

Q. Do you keep separate accounts for your ice cream department? A. No. As regards the ice cream department, in the case of any surpluses there, fifty per cent goes to the milk department and fifty per cent to the butter department.

Q. Besides that, do you at any time finance small co-operatives? A. We have a system of financing.

Q. To what extent last year? A. I don't recall anything.

Q. Well, the year before? A. We gave guarantees for one cooperative creamery. We guaranteed their advance by the bank. We did that on two different occasions, and that is the only financing I can recall.

Q. Do you enter into marketing agreements with other pools or firms? A. We have no contracts.

Q. Of any sort? A. No.

Q. This year the association held reserve certificates or participation certificates issued by other associations or cooperatives?

A. I believe we have a few from the wholesale cooperatives.

Q. What wholesale cooperatives? A. There is the Alberta Wholesale Cooperative.

Q. Do those participation certificates figure in your assets? A. I think it is very small. I do not think they were ever taken into reckoning at all in our accounting.

Q. What might be the approximate amount of the holdings?

A. I don't just recall, around \$20.

BY MR. ELLIOTT:

Q. Are there usually several creameries in a small town



in Alberta? A. Only one in each town. I don't know of any place now where there are two.

Q. One in a town here and one several towns away?

A. Yes.

Q. About how far do the farmers ship their cream?

A. In Edmonton there is a good deal of cream from the Peace River district because they have no service there and that goes as far as four hundred miles.

Q. Is it the tendency to ship to the nearest creamery?

A. Yes.

Q. Whether owned by cooperatives or by non-cooperatives?

A. It depends on the service that is in the area. If the truck goes right into Edmonton they will bring the cream in because they bring their own into Edmonton; but in the area surrounding these towns ninety-five per cent of the cream is left in that creamery and the only difference would be when there is a special service coming to a centralized point.

Q. So that the typical farmer does sell to the nearest creamery, whether cooperative or non-cooperative?

A. As a general rule.

Q. Why is that? A. In several cases they deliver the cream and get paid immediately because they need the money. That is a consideration.

Q. It is costly to take it to a more distant creamery?

A. Yes.

Q. So that for practical purposes, no matter whether the creamery is cooperative or non-cooperative, it does have almost a monopoly of the cream sales in the area immediately surrounding it? A. That is reasonably true.

Q. Are there any advantages in the way of lower costs from having a large number of creameries operated under the





same management -- a line of creameries rather than one?

A. There is a saving.

Q. Would it take you long to tell us something about it?

A. I think you can get more uniformity and can render better service in keeping up to date if you have some experienced help in looking after the supervision of the work.

Q. What precise danger did you foresee when you heard that large eastern interests were thinking of purchasing plants? A. We felt that we were doing our producers a service. It was our opinion that there would be a big demand in these districts to serve them, and if we did not take these creameries now and they got into the hands of other operators, a few years later these producers would not be able to avail themselves of cooperative marketing.

Q. You did not fear competition from these other large concerns, but if they got hold of the creameries --

A. These producers could not take advantage of cooperative marketing.

BY MR. VAUGHAN:

Q. How many ordinary members have you in your pool and how many associate members? A. It was around 8,500 or 8,600 that signed contracts or signed the application form up to the end of 1943. Last year we treated them all as members. We had in the neighbourhood of 17,000 including the added members of creameries we took over last spring, eight creameries from Burns. So that last December we issued over 17,000 cheques as final payments to our members.

Q. You have seventeen thousand members altogether? A. Yes.

Q. How many of these would be ordinary members?

A. Before we sent out the final notice there would be around nine thousand, but since we sent out the final payments we have had quite a number of application forms signed and



returned, though we have not tabulated them.

Q. Before you sent out the payments you had nine thousand ordinary members and eight thousand associate members?

A. Yes.

Q. Do you know the amount of business done with each class? A. No.

BY MR. MILVAIN:

Q. When Mr. O'Connor was questioning you about the change you made in order to make allowance for associate members, you said something to the effect that it had been discussed for some years. A. Yes.

Q. Over what period of time did these discussions take place? A. For four or five years we have discussed the advisability of eventually getting the membership on an equality basis, getting them on the same footing. The question was discussed for several years before it was decided by the delegates at the annual meeting.

Q. Whose idea was it? Was it yours? Was it something which the directors were trying to impose upon you or you upon them? A. I was not then the general manager, but for a number of years I had been urging that this move be made, and it was my personal feeling that it was desirable in any cooperative to get justice and equality and to have all members on the same basis.

Q. That was your own feeling? A. Yes.

THE CHAIRMAN: That it was good business for your organization?

WITNESS: Yes. But I still felt that we should be a one hundred per cent cooperative organization and that we should definitely give every member, whether he signed the contract or not, the same interest. That has been my personal view for





a number of years.

THE CHAIRMAN: And it has worked out successfully?

WITNESS: Yes. I don't think that we should make a distinction between members.

BY MR. MILVAIN:

Q. Was it discussed at more than one general meeting of the delegates? A. The principle was discussed by the general manager and by the directors, and an important discussion took place mostly with the general manager expressing my views on the policy to be followed.

Q. Were you ever present at a general meeting of delegates at which it was discussed? A. Yes.

Q. Was the question of section 4(p) discussed at those meetings, that you know of? A. Not to my knowledge.

Q. And you have been present at many of those meetings? A. Yes.

THE CHAIRMAN: You must know whether 4(p) was discussed if you were at those meetings.

WITNESS: Not to my knowledge.

THE CHAIRMAN: You were at the meetings; was it discussed?

WITNESS: No.

BY MR. MILVAIN:

Q. If it was discussed it would be some time when you were not present at a meeting. That is what you mean?

A. Yes.

Q. You have been in the creamery and dairy business in this district for many years? A. Yes.

Q. Do you know whether any independent businesses have made final payments along the line you speak of? A. Yes.

Q. That is of your own personal knowledge? A. Yes.

Q. How many of them did that? A. Some years ago several



of them made final payments the same as the pool.

BY MR. PARKER:

Q. You don't know under what terms they received the milk? A. No.

Q. You don't know whether they were buying the milk nor do you know how the payments were handled in respect of income tax? A. I have no idea.

MR. O'CONNOR: Mr. Stanley, will you bring that statement to the Commission?

WITNESS: Yes. They are working on it now.

MR. PARKER: Before we proceed with the next brief, it has occurred to me that, in relation to the Northern, the Commission might ask Mr. Milvain, or the Company through Mr. Milvain, to prepare a statement giving the following information going back over the last three or four years: First, the amount of business done each year by the so-called contract members; then the amount of business done by application members; finally the amount of business done by those who are termed associate members who, as I understand it, later ripen into ordinary members after signing the application. There is currently a certain number of associate members who have not yet become ordinary members. Will the company prepare a statement along that line and send it to the Registrar?

MR. MILVAIN: We will do the best we can.

THE CHAIRMAN: It may be difficult.

MR. MILVAIN: I cannot guarantee how thorough and exact it will be, but we will do our best.

. . . . .



Central Alberta Dairy Pool

MR. PARKER: We will now proceed with the Central Alberta Dairy Pool. I have suggested to Counsel representing the Central Pool, and to Mr. O'Connor, who represents in respect of it the same position as he did in relation to the Northern, that we might shorten the consideration of this brief by taking it as read and having the manager, who I understand is here, go into the witness box. Mr. Milvain might wish to emphasize certain points in the brief.

THE CHAIRMAN: Is it much the same as the last one?

MR. MILVAIN: It is very similar. There is a slight difference between this and the others.

THE CHAIRMAN: You can bring that out in examination.

MR. MILVAIN: Yes.

THE CHAIRMAN: Then we can dispense with the reading of the brief and counsel can bring out such differences as there may be.

MR. MILVAIN: Yes, Mr. Chairman. I will have Mr. Johnstone, the manager, acknowledge that the brief is his.

MR. PARKER: It should be made clear that this is satisfactory to every interest.

THE CHAIRMAN: I hear no objections.

MR. PARKER: And I will not induce any.

E. A. JOHNSTONE,  
Manager of the Central  
Alberta Dairy Pool,  
having been duly sworn,  
testified as follows:

BY MR. MILVAIN:

Q. You are manager of the Central Alberta Dairy Pool?

A. I am.

Q. I notice the word "limited" does not appear in its name, and that is correct?



Reference to the ... ..

... ..

A. That is correct.

Q. For some reason the word limited is not in the name of the company? A. No.

MR. PARKER: It is incorporated under the Act?

MR. MILVAIN: Yes, under the Marketing Associations Act.

BY MR. MILVAIN:

Q. How long have you been manager of the Central?

A. Since the latter part of 1938.

Q. Prior to that what was your occupation?

A. I was nine years with Burns and Company and before that I was in business for myself. Prior to that I was a farmer.

Q. While you were in business for yourself, and with Burns and Company, that was in connection with the creamery business? A. Yes.

Q. The Central Dairy Pool is one of the three dairy pools in Alberta? A. Yes.

Q. It is different from the others in this respect, that you are on a wholesale contract basis? A. Yes.

Q. It is also different from the others in that you operate in Red Deer a condensery? A. Yes.

Q. I understand that the condensery is one of two such concerns cooperatively operated in Canada? A. Yes.

Q. In addition to the condensery in Red Deer you have a creamery in Red Deer? A. Yes.

Q. And creameries in other points? A. Yes.

Q. How many other points? A. Ten outside points.

Q. The first a creamery operated in the central area was not in Red Deer? A. No, in Alix.

Q. That was the first one acquired by the association after its organization? A. Yes.

Q. In 1929? A. Yes.

Good friends.

Best of friends.

Q. Were any of the creameries that you purchased or acquired financed under the Marketing Associations Guarantee Act? A. When they purchased Alix at the beginning of 1929 they got a guarantee under that Act.

Q. What was the amount of the guarantee? A. \$38,592.

Q. And on any of the other creameries did you get guarantees? A. No.

Q. When was the condensery put up in Red Deer?

A. It was constructed in 1936 and commenced operating the first of November that year.

Q. What was the cost of installation? A. \$135,000.

Q. Was any part of that financed under the Guarantee Act? A. No.

Q. There was no guarantee under the Act? A. No.

Q. What is the total of your present membership? A. At the end of 1943, 8,150 plus.

Q. Among the documents filed with your brief there is a copy of a marketing contract? A. Yes.

Q. Has that marketing contract been signed by the eight thousand or more you have mentioned? A. Yes.

Q. And from the inception of your operations has that been the case? A. I believe the first contract was a term contract. It was changed to a perpetual one before I became associated with the organization.

Q. The first contract was for some particular period? A. Five years, I believe.

Q. And the present contract is for one year renewable automatically at the end of each year?

A. Unless there is notice of termination.

THE CHAIRMAN: Have you any other form of membership?





WITNESS: No. We just have the membership contract.

THE CHAIRMAN: Do you accept delivery of milk and cream from other shippers than contract members?

WITNESS: Yes.

BY MR. MILVAIN:

Q. What would be the relationship and percentage?

A. In 1943 it was approximately eight per cent from those who had not signed the contract and ninety-two per cent from those who had.

Q. As a matter of fact, you set out in your brief, at page eight, a tabulation of the percentages for the years from 1939 to 1943 inclusive? A. Yes.

THE CHAIRMAN: I assume those figures are accurate?

WITNESS: They are accurate within half of one per cent, your lordship.

BY MR. MILVAIN:

Q. You have had a brief filed with this Commission?

A. Yes.

Q. And you subscribe to the statements made in it?

A. I do.

Q. The statements of fact therein set out are either to your own personal knowledge or to the best of your information after inquiry? A. That is correct.

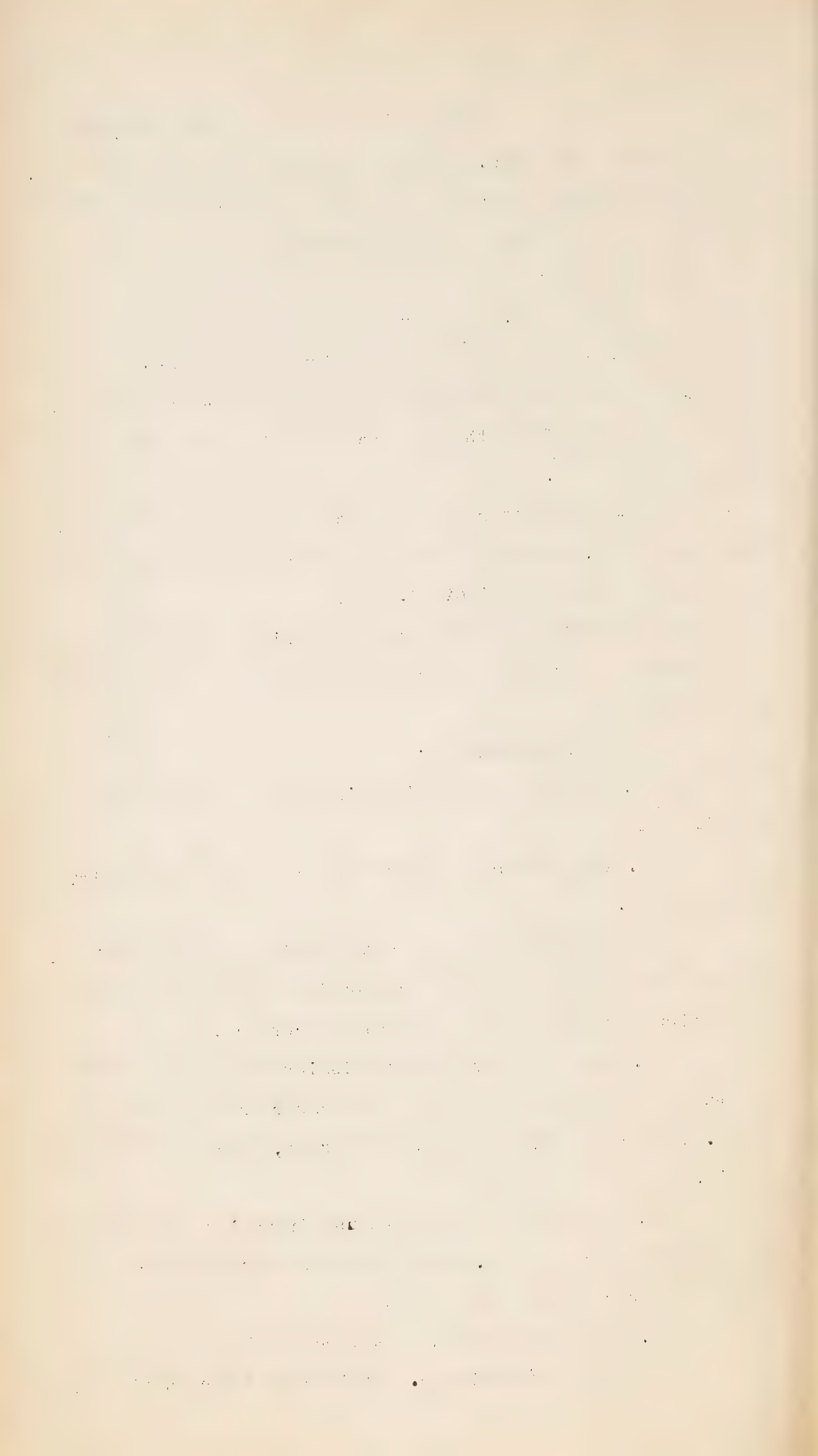
Q. You might tell the Commission shortly how you handle the product as it comes from the member and how you pay him.

A. We receive it, grade it, pay for it, process it and market it.

Q. And what method do you use in making the settlement with the members? A. In cream and eggs we use a cash cream ticket or cash poultry ticket.

Q. That is cashable, as any cheque is?

A. It is not a cheque. It is called a cash ticket, and



there is this difference that a cheque must bear a stamp whereas these tickets do not require a stamp if under \$5.

Q. But a person getting one can turn it into money at any time? A. Yes.

Q. Your contract makes provision for deductions?

A. Provision for deducting up to two cents a pound on butter fat.

Q. Do you do that? A. We don't do it now, but from the records it would appear that in the early years there were some deductions made to get the organization going.

Q. Was anything given to the members to represent the amount of these deductions?

A. Whatever was deducted would be given back in the form of participation certificates.

Q. Did the association in fact issue participation certificates? A. Yes, in every year except three.

Q. Do you remember those? A. 1937, 1938 and 1939.

Q. Have all or any of these certificates been redeemed? A. Participation certificates up to and including 1932 have been redeemed in cash.

Q. And has provision been made for the redemption of those outstanding? A. The policy of our board is to redeem two series each year until we get on a six-year revolving plan.

Q. You are working to put this six-year revolving plan into operation? A. We are seven years now; we have seven series outstanding.

Q. So that about 1945-46 you will be on the plan? A. We should be on the plan at the beginning of 1945.

Q. Well, this is 1945. The beginning of 1945 or 1946? A. It will be effective in the year 1945.



Q. Surpluses are developed in the operation of the association? A. Yes.

Q. What disposition is made of those surpluses?  
A. They are distributed according to the discretion of the board of directors.

Q. On what basis? A. On the basis of quantity delivered to the association by the member or by the producer, I should say.

Q. What if anything is given to the member to represent his share of the surplus? A. He has a cash final payment. He is given the money, and he has that interest in the association.

Q. Do I take it that on some occasions the surplus is distributed wholly in cash? A. Yes. In one year it was distributed wholly in cash.

Q. And in other years partly in cash and partly in the form of what? A. Participation. We are trying to get on the basis where there will be no cash distribution for that particular year. It simplifies the records and reduces the amount of detailed work necessary in making final settlements to members.

Q. In setting up the financial statements and balance sheets do you make provision for reserves?

A. Yes.

Q. What reserves do you make provision for? A. Since the war commenced we have made three specific reserves. This is outside of debt and depreciation. One is a reserve to take care of possible reduction in inventory on our butter. The second is to take care of possible depreciation on evaporated milk, and the third is general in case we should have losses in one year substantially greater than the amount of those two reserves.





Q. What considerations did you have in mind in arriving at the amount of the reserves? A. The reserve in the case of butter was arrived at in this way. In 1939 or 1940 there was a fairly sharp improvement in the market price of butter, and assuming that what is up must come down some time, we just set aside the improvement in the price at that particular period and left that as a shock absorber when prices declined. In regard to the floor stock for milk, we had no rule to go by because we were new in the business and we set up what would be considered a normal reserve for that particular purpose. In the general reserve we have something that could be applied to any need that might arise. In our general reserve we have a reasonable sum but it is not large when you consider the uncertainty of the canned milk business.

Q. In your last balance sheet what was that amount?

A. \$72,000 was the general reserve.

Q. You feel that you can allocate that general reserve to any of the other reserve functions? A. Yes.

Q. What is the productive capacity of your condensery?

A. At the present time 300,000 cases a year approximately.

A case contains forty-eight one-pound cans of evaporated milk.

Q. Is it working close to capacity? A. Fairly close now.

Q. How much? A. It made in 1944 -- I have not seen the December figures -- approximately 275,000 cases.

Q. It is within 25,000 cases of full capacity? A. Yes.

Q. How is that milk disposed of? A. Forty per cent is sold under other manufacturers' labels, put up according to their formula. The balance we fill ourselves.

Q. When you say you put it up under some other manufacturer's label and according to their formula, is that in accordance with arrangements made with other evaporated milk companies? A. Yes.



Q. They made an arrangement with you to process and put on the market their product, so to speak? A. Yes.

Q. What is the trade name under which you sell your own milk? A. Alpha.

Q. Did you have difficulty getting it on the market? A. Yes. The first was Alpine, claimed by another milk manufacturer, and we had an injunction served against us to discontinue, so that we had to pick another name and we changed from Alpine to Alpha.

Q. Did you experience any difficulty developing a business in evaporated? A. Yes.

Q. How long did it take to put the condensery on a paying basis? A. From 1936 to 1939.

Q. In that period it did not show a surplus? A. No. It operated at substantial losses.

Q. At page ten of your brief you set out for the information of the Commission some contemplated changes in policy, and the first is a contemplated change from the contract to the non-contract member basis. Why has that policy been considered? A. Well, chiefly for the reasons set out there.

Q. You might read that paragraph. A. This states that our by-laws and methods of operation centre on membership marketing contracts. This programme has been in use by our association for nearly twenty years, but for some time we have been considering changing our by-laws so that all shippers to our association automatically become members in good standing on delivery of the product of the association and the payment of the membership fee. Among other things, if this were done, the work of recording who are members and who are not would be greatly simplified. We are anxious also that all shippers be members and receive as nearly as possible the same returns for their products.





Q. In considering this possible change, did you have in mind at all the Income Tax Act?

A. No, I did not. My chief reason for supporting it as manager would be that it greatly simplifies our recording of those who are and those who are not members, because when you get into thousands of members and a can of cream comes from Jim Smith you have no idea whether he is a member or is not, and you have to keep a record of his product until the end of the year. Then you have to go through them all and sift them out, putting the non-members in one group and the members who signed contracts in the other, and make final payment on that basis, and that means a great deal of work.

THE CHAIRMAN: Is it not worth while having regard to section 4(p) of the Income Tax Act, even if it does involve a good deal of work?

WITNESS: We would assume that if that change were made in our constitution and we made all shippers members we would then be within 4(p).

THE CHAIRMAN: Making them members then?

WITNESS: We would be a hundred per cent pool.

BY MR. MILVAIN:

Q. As you operate at the present time you are close to one hundred per cent in any event? A. Yes. We consider we have done very well in that regard.

THE CHAIRMAN: That would expand your business considerably?

WITNESS: I do not know that it would expand our business. We did not have that in mind. I don't think it would expand our business.

THE CHAIRMAN: Do you mean to say your membership would not jump up?

WITNESS: The only improvement that would come would be



that we would deduct the dollar membership fee without having approval.

THE CHAIRMAN: Do you cover one hundred per cent of your territory?

WITNESS: As nearly as possible, provided it is voluntary, provided membership is voluntary as far as the producer is concerned, and if they wish to join they become members.

BY MR. ELLIOTT:

Q. If you have a creamery in a given locality you now get all the cream shipped from that locality or practically all?

A. Yes; you get the major percentage of all the cream in the territory. There are some producers who do not want to patronize the cooperative organization and they can ship to other plants.

BY MR. MILVAIN:

Q. To clear up a misunderstanding that might arise from your answer to the chairman, there are other creameries that are non-pool operating in your central zone? A. Yes.

Q. Do you feel that your association is of benefit to its members? A. Yes, I would say it has done a good job. It establishes confidence, I think, among the producers and gives them, among other things, an opportunity of knowing something more about what it costs to handle their product. They get yearly statements from us, sometimes bi-yearly statements and they come to the annual meeting and have a chance to pull our business to pieces -- or pull their own business to pieces.

THE CHAIRMAN: You did not expect a different answer to that question?

MR. MILVAIN: No, sir.

BY MR. O'CONNOR:



Q. You started out in 1935 with the Acme Plant, I believe. You bought a plant at Acme?

A. Yes.

Q. From whom? A. From the local cooperative.

Q. In 1936 you built a condensery at Red Deer? A. Yes.

Q. You built that? A. Yes.

Q. And in 1941 you bought a creamery at Red Deer?

A. Yes.

Q. From the Central Creameries? A. Yes.

Q. Is that a private enterprise? A. It is a large dairy concern operating under the name of United Dairies.

Q. And then you bought a few more? A. Four in 1942.

Q. Were any of these from pools? A. No.

Q. They were all private? A. Yes.

Q. And in 1944 you bought three more. Were those private?

A. One was.

Q. Two were purchased from pools and the others from private enterprise? A. Yes.

Q. And with the exception of the one at Red Deer they were all existing facilities that you took over? A. Yes.

Q. You bought one in 1941, four in 1942 and three in 1944. I believe that is correct.

A. I think that is correct.

Q. Are you now negotiating for other creameries?

A. Yes.

Q. Where? A. In the eastern part of our territory.

Q. From what company? A. From Swifts Canadian.

Q. Where are those situated? A. One at Coronation and one at Hanna.

Q. The province is divided carefully into zones or areas?

A. Not very carefully.





Q. Do you compete with each other? A. There is no reason why we should. The area was defined from this fact, that at a certain time when it was thought desirable to zone we had plants serving producers in a certain territory and that was chosen as ours.

Q. The three pools sat down and decided on the areas - whatever area you had to operate in? What you had you kept? A. We had the Acme plant and the Southern pool thought it was in their territory and we agreed with them and sold it to them and at the same time suggested that we define our territory. We were willing to define our territory and when we had defined our own territory what was left in the south would be for the south and what was left in the north would be for the north. Our territory is only about fifteen per cent of the size of either of the others, so that it would not be selfish as far as our end was concerned.

Q. In your central area there are twenty-eight creameries compared with sixty-two in the northern? A. Yes.

Q. And of those twenty-eight you have eleven? A. Yes.

Q. What is the volume of your eleven out of the twenty-eight? A. I could not tell you.

Q. But your volume is more than that of your seventeen competitors? A. I could not tell you because I haven't the production of the other plants.

Q. There is no competition; the three pools have three zones? A. There are some other cooperative creameries in the province.

Q. When the poultry pool took over didn't you turn over your poultry to them? A. We did it a little differently. We became their agent and bought for their account.

Q. So that there was no competition with them. You acted as their agent? A. Yes.



Q. And the others gave them trading facilities?

A. That is not quite right either. They were operating the system before we became their agent.

Q. But the province is carefully divided and there is no competition among the pools. That is what I want to emphasize.

A. Oh, there is some competition between us because this line is an imaginary line.

Q. What is the competition between you? A. If the northern pool makes a better final payment than we do, the producers in the marginal territory might ship to the northern pool.

Q. But outside that there is no competition? A. That is the only competition that would apply between us and the other concerns.

Q. You heard Mr. Stanley giving his evidence? A. Yes.

Q. And when I suggested that in respect of any area in which there were existing facilities it was impossible to get a licence he said he never heard of that, or words to that effect. I suggested that was the policy of the government.

MR. MILVAIN: He said he did not know what the government policy was for sure.

BY MR. O'CONNOR:

Q. Your brief sets it out plainly. It says: "The policy of the Alberta government is such that no licence will be issued to permit a new creamery in any area unless the volume of production is such as to warrant further facilities of that kind." I suggest that no company can get a licence for a creamery at or near any place in which there is a pool creamery operating? A. It applies to the others as well as to ourselves.

Q. Where you have those facilities and no one else can get a licence you have an absolute monopoly? A. No.





Q. Why not? A. They can ship to other creameries.

Q. Yes, they can; but what about the cost of freight and so forth? A. We have a creamery at Alix and fifteen miles away there is another, and there is still another some ten miles away, and neither of these is a pool creamery.

Q. In your area, where your creamery is, that is where they will ship to? A. If they can get good service and are satisfied with the way they are treated; otherwise they will not.

Q. In your brief, on page six, at the bottom you say that the condensery did not make money at first, that it was difficult to establish a market for a new and unknown brand, and until the middle of 1939 the condensery operated at a loss.

Q. Let us understand it. You have both creameries and the condensery? A. Yes.

Q. Your members bring in their products and you sell them and give back to the members the proceeds of the sales? A. Yes.

Q. In your plant you experienced a loss in connection with the condensery? A. Yes.

Q. Did you lose anything on the creameries? A. The creamery operations in no year showed a loss in themselves that I can recall.

Q. Are there shippers for this condensery? A. Yes. The shippers to the condensery ship milk in fluid form.

Q. One group ships to the condensery? A. Yes.

Q. How did you experience that loss? What caused it? A. We had a new operation and had to build up a market for a brand product.

Q. Did you overpay the shippers? A. No.

Q. Your loss must have been from wages and the expense you had. At least fifty per cent of your cost would be due to



wages and supplies? A. If we did not overpay it would have to be in our expenses.

Q. In one year you made a loss. To whom was that loss charged up? A. To the members. Any loss reduces the equity of the members.

Q. Suppose it goes beyond the equity, what do you do then? A. If it went too far we might fold up.

Q. Don't fold up for a minute. Suppose you make a loss. In the first place, the surplus covers part of that, but if your surplus goes what have you next to apply on the loss? Members' surplus? A. If we keep making losses we eat into working capital until it is gone and then into capital assets until we can't realize further on that.

Q. Before you touch any of these you have a surplus? A. We have now, but in the early years we did not have.

Q. Your surplus would go first? A. Yes.

Q. Then what would you charge your loss to? A. The members' equity would be worth less then.

Q. If you have a loss in one year you try to collect that from the members? A. We have this right, according to our marketing agreement, that we can make a deduction up to so much. You are suggesting a situation we have not experienced since I have been with the organization. Possibly we would give thought to exercising our right under that agreement.

Q. Let us go back to 1936-39 when you did suffer a loss. Did you try to collect any part of that loss from the shippers? A. In 1938 the condensery was closed down for a period of time. It was not operating.

Q. Let us take the year 1936. You had a loss in 1936. Did you collect in that year from the shippers the amount of over-payment? A. They did not receive an overpayment.



Our expenses were too high.

Q. You collect this product from the members and manufacture and sell it and give them the money? A. Yes.

Q. You hand them so much money having regard to what you realise for the product? A. I think I get what you are after now. Possibly I can answer it in this way. Our general reserve was set up specifically to guard against losses in the future and it was practically in toto taken from the condenser operation. In other words, over a period of five years the operation that caused our losses in early years redeemed itself and placed in reserve a reasonable amount to protect itself in the future.

Q. You set up a reserve to-day against future losses. You are taking from present-day shippers money to form a reserve against future losses -- that is, losses that might be made by another set of shippers who might be entirely different? A. To a degree that is right. On the other hand, if you incurred a loss at the tail end of the year and did not know about it you would take out of next year's shippers, too, some of that loss, and I don't know that that is something you can avoid in an operation that has quite a few hazards.

Q. Take the creameries you purchased to start with. First there is the one at Alix. Did you have share capital? How did you buy it? A. We operated under a working arrangement with a private creamery for four years and accumulated a certain sum and, together with the government guarantee of \$38,000, purchased the plant and set up the operation.

Q. With what money did you pay back that government loan? A. Out of successful earnings.

Q. Of these members? A. Yes.

Q. Earnings? A. Yes, belonging to the members.



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Q. You took money from these members over a period of years and used that money to pay the bank. How can that group ever get this money back? A. They have the money back now.

Q. How? A. When we keep the earnings in the association we issue an acknowledgment to each member that we have it, and then in a period of time we redeem that pledge.

Q. Out of what? A. Out of new earnings.

Q. In other words, you are robbing Peter to pay Paul. You must be. A. Our whole plan of operation is this, Mr. O'Connor. It is a revolving ownership as far as our pool is concerned, and the producers who own the plant and assets are the men presently supplying goods to us, and if they go out of business at any time they will be paid the equities left in and a new group of producers will come in and assume ownership.

Q. That is all right unless, to use your expression, the whole thing folded up, in which case the last group would be stuck. A. It could be, but if we have reasonable reserves that is quite unlikely, don't you think?

Q. Do you know Mr. Hannam, president of the Canadian Federation of Agriculture? A. Yes.

Q. I would like to read to you from Co-Op News of June 1944 the following extract: "Farmer Cooperatives show rapid expansion, by H.H. Hannam, President, Canadian Federation of Agriculture: Two interesting facts stand out from this situation. One is the need of the legitimate farmer co-operatives for more capital with which to keep pace with their expanding business and the increased demand for service from their farmer members. The second fact is the obvious attempt being made by certain interests to capitalize on the situation by launching self-styled 'cooperatives' which are seeking



financial support from farmers, but which contain none of the elements of true cooperatives." Do you agree with that statement? I am not suggesting that your pool is in that category. A. I have not seen that statement before, and in order either to agree with it or to disagree I would like to see what goes before it and what comes after.

Q. Here it is.

THE CHAIRMAN: You should have been a lawyer, Mr. Johnstone.

WITNESS: Thank you, your lordship.

BY MR. O'CONNOR:

Q. Have you any opinion to offer? A. I would say that to the best of my knowledge I do not know of any cooperative groups in Alberta that I would not consider are cooperatives.

Q. Have you examined their set-up? A. No.

Q. So you do not know anything about it?

A. Except from general information I have received.

Q. Unless you examine to find out what makes the wheels go round you cannot know much about it. Is he right or wrong in the principle he lays down? There are two groups?

A. It might apply to the area he is referring to in that article, but to the best of my knowledge it does not apply to cooperative groups in Alberta.

Q. This is the Central Alberta Dairy Pool, and I was curious to know if you agree with Mr. Larson. He was your predecessor? A. He was a predecessor.

Q. He sets out a number of points. He says that the pool is a new economic system to replace the capitalistic system. Is that your view? A. I have never given it a great deal of thought except that I think the cooperative association has performed a very useful service and the producers generally have benefited in consequence.





Q. You regard it as something that will replace the capitalist system? A. If I gave an opinion on that I would be giving an opinion on something that I have not thought sufficiently about so as to express any views about it.

Q. In that case just say No.

BY MR. PARKER:

Q. You said, Mr. Johnstone, that to keep the members' and non-members' accounts separately it would take a great deal of work because you would have to keep daily or monthly the grade of the cream, or words to that effect? A. Yes.

Q. Do you not have to keep some particulars in respect of each member's account? A. Yes, but there is a difference. If you had a one hundred per cent pool you would not need to do all that sorting because any deliveries that came in would be from members. Now you have a large number of shippers who would have to be posted and you would have to check back the contracts to see who were members.

Q. All I am asking you now is this. In regard to your members, though I may be wrong about this, I understand that every man is paid according to the quality of what he sends in, talking about milk. A. Yes, particularly in cream.

Q. So that you have to keep details of each member's deliveries from day to day, week to week and month to month, don't you? A. Not as far as quality but as far as quantity is concerned.

Q. Quantity irrespective of quality of milk that comes in? Is every producer paid the same rate? A. Yes. Any variation in the value caused by quality is adjusted in the initial price paid them. In other words, if he ships a special grade he may get forty-four cents and if he ships No. 2 he will get thirty cents.

Q. I do not know that I follow you. Is there any



difference where the cream or milk comes from, whether from a member or non-member? Don't you have to go through the same performance? A. We think there is a great deal of difference.

Q. What difference can there be in the quality or quantity because the milk happens to come from a member or a non-member, if you want to treat them with equal fairness?

A. When we have a large number of members we don't know them personally.

Q. I understand that, but is that an answer to my question? A. I was going to say that, not knowing them personally, when we see their names we do not know whether they are members or not until we refer back to the records. But if they were one hundred per cent members there would be no doubt; they would be automatically members.

Q. Apparently I have not made myself clear. Suppose you ~~didn't~~ not know the name of a single member but knew you had one hundred different shippers. Would you not keep some list to show that each member was paid according to the quality of milk delivered? A. Yes.

Q. Then is there any distinction, in what you have to do, according to whether the milk comes from a member or a non-member? A. Up to the point of recording his receipts there is no difference but after that there is.

THE CHAIRMAN: Under the plan you have in mind, what formality would you require of the producer to become a member -- the mere fact of delivering to you?

WITNESS: Under ordinary circumstances, I suppose we would have done it this way. We would advise all our members and shippers that we were going on a one hundred per cent basis, then that would take care of all this personal shipping, whether members or non-members. For those that come in the



future we would likely use the medium of the publicity organ to advise them from time to time throughout the year of any change of policy.

THE CHAIRMAN: It is really a matter of bookkeeping?

WITNESS: Do you mean advising them?

THE CHAIRMAN: No, changing them from members to non-members.

WITNESS: There is quite a little work. You have to go and get a contract.

THE CHAIRMAN: That is what I say. It is a matter of bookkeeping.

WITNESS: Yes; that is right.

BY MR. ARNASON:

Q. When you were answering Mr. O'Connor's question in regard to the expansion of the company and the purchase of creameries from year to year I wondered whether you would give us some information as to why, in your opinion, the members of the association supported such a policy of expansion. Was it to get better returns or service, or both? What were the conditions that prompted the producers to support such a policy of expansion? A. In the early years, for a number of years, we served all the cream producers from the one plant at Alix and there was cream coming into that plant from many other creameries by truck from points as far as one hundred and fifty miles away. That in itself is not a desirable condition, especially now in later years when more emphasis is put on quality and the member, the producer, feels he has a better chance of getting a premium for quality by being in a position to deliver to one of his own plants closer by than some plant a longer distance away.

Q. It was regarded as an improved service to the members? A. Yes. That was one of the principal reasons.





But there is another, and I do not suppose it would do any harm to mention it. The war came on. We had just the one plant and the private creameries, owing to shortage of gasoline and rubber particularly, which was in short supply, attempted to zone all the creameries and to delimit the distance that cream could be trucked. We had a large membership running from the eastern boundary of Alberta to as far west as these other people lived. The majority of them wanted to patronize the cooperative plant and there was great likelihood that we would not be able to continue that service, and that is another reason that prompted us to acquire plants around our main plant, according to our ability and the willingness of the other side to sell.

Q. You say the desire of the producers to control their own marketing facilities was also a factor? A. Yes. Before we located in any area we would have had innumerable requests to have a plant in that area. You get that right along.

Q. Would you care to express an opinion as to the effect which the operations of your association have had in raising the level of prices to producers? I realize that this is a difficult question to answer and it may be only a matter of opinion. I wonder if you would care to offer any comments.

A. I hesitate to get into that field because it is controversial. Perhaps I can give two instances without quoting names. I could give more, but at any rate I will give these two. There was one case in our territory where cream prices were raised and we inquired of the operator why they were raised. In a jovial mood he said, "Well, we have to raise them to get cream in face of your operation." That is in regard to cream; and so far as poultry is concerned, we have had some of our members come in and ask what we were going to



pay for turkeys. We quoted a certain price to the person I have in mind and he said, "I was talking to a man buying for another concern and he said he would pay two cents more than the pool has." We have had instances like that. There may be instances where other competing concerns have paid prices higher than ours.

Q. With reference to your handling of poultry, is it not a common practice in this province for creameries to handle poultry products? A. Yes. I believe all creameries, with very few exceptions, handle poultry.

Q. The equipment on the premises owned by a creamery lends itself to the handling of poultry products?

A. Dressed poultry does not require much in the way of premises but live poultry would.

Q. Is there a general tendency in this province in the direction of reducing the number of creameries?

A. No. The number of creameries in the province has stayed stationary, between ninety-four and ninety-six, for some years.

BY MR. ELLIOTT:

Q. When you acquire a new creamery to give service to your members in another area, you also acquire with that creamery shippers who have not formerly been members of yours? A. Yes.

Q. That is, it tends to increase the volume of cream handled through your organization? A. Yes.

Q. Is that increase in the total volume of cream an advantage to the old members of your association who were already well served by one of your older creameries, or is it an advantage only to the members who are now situated near the new creamery? A. Generally speaking, there would be some advantages to our old members in that area. Of course, we did not attempt to buy, nor did we buy, creameries in any area





that was reasonably well served by one of our plants.

Q. In what would those advantages consist? A. There are several. One is the convenience of service. It is a matter of service and the convenience of it.

Q. To the old members? A. Yes. Previously the member might have to have his cream trucked a distance.

Q. I mean to the old members who were already near a creamery, an old creamery, one that you had already acquired some time before? A. I would say, no additional advantages of any great importance.

Q. Does it ever happen that you have deficits from the new creamery that you have taken over.

A. Yes.

Q. Who bears those deficits? A. The general operation will bear the deficit.

Q. That is, the old members who are already well served? A. Yes.

Q. So that no net advantages accrue to the old members who are already served, but there may be disadvantages to those members from the taking over of a new creamery in another area? A. Yes, but the disadvantages would be small; and in any annual meetings we have had there has never been any criticism of the board's policy of acquiring some additional plants.

Q. Has the pressure for acquiring additional plants come from below upwards or from above downwards, or can you say? A. It comes from both places. There has been a time recently when we had a petition signed by more than three hundred members to locate a plant in a certain area.

Q. Those members were near that area?

A. Yes, and a considerable distance from one of our existing plants.



Q. In that case the pressure came from your members who would be better served if you acquired a plant near them?

A. Yes.

THE CHAIRMAN: Do you close any units?

WITNESS: We have closed one unit, your lordship.

THE CHAIRMAN: You found it unprofitable?

WITNESS: We amalgamated it with the production of another close by.

BY MR. THORVALDSON:

Q. You pay what is known as patronage dividends? A. Yes.

Q. And all your members of the central pool receive patronage dividends on the same basis, that is, on the basis of quantity or quality or whatever it is? A. We call them participation certificates. It is the same thing. They are paid on as nearly equitable a basis as the board can determine.

Q. The question is this: Suppose you have creamery A and creamery B and suppose a person ships exactly the same amount of cream and milk to creamery A as another person ships to creamery B. The patronage dividend or participation certificate would be identically the same for the two persons?

A. Did you say the member shipping to A would receive less than the initial price paid to the member shipping to B.

Q. No; that is not the question. Two persons ship exactly the same amount of products to two of your own creameries. Suppose creamery A makes a loss and creamery B makes a profit. The person who ships to creamery A gets exactly the same patronage dividend as the person who ships to creamery B, which makes a profit? A. Yes.

THE CHAIRMAN: That closes the case?

MR. PARKER: Yes. Mr. Brownlee is present and has a communication to make to the board.



MR. BROWNLEE: Mr. Chairman, and members of the board, probably I should explain first that some time ago the government of this province appointed an advisory committee with respect to cooperatives. The purpose of that committee was to advise with reference to the growth of cooperatives in the province, looking to as sound a development as possible. I was requested to assume the chairmanship of the committee and I agreed to do so. At the last meeting of the committee there was some discussion as to whether or not the government of the province might wish to make a statement to your commission, sir. Yesterday I received a letter from the Minister of Trade and Industry enclosing a statement of policy, and I only succeeded in calling the members of the committee together to-day. At their request I should like to tender this statement to you. It is a statement of the Alberta Government's policy on cooperatives. You will understand that I can do no more than read it. I can either read it or hand it to the Registrar, as you see fit.

THE CHAIRMAN: I think it will be sufficient if you hand it in. We will undertake to read it. May I extend our thanks to the government for their interest in the work of the Commission and to you, Mr. Brownlee, for communicating their views to us.

MR. BROWNLEE: Thank you, sir.

MR. THORVALDSON: Will a copy of that statement be available to us?

THE CHAIRMAN: Oh yes. It is a government statement to which you may have access.

MR. PARKER: I am in the hands of the Chairman, but bearing in mind that to-morrow is Saturday I think that we should meet early if we hope to cover what is left.





THE CHAIRMAN: I hope we can. I think we had better meet at 9.30.

The Commission thereupon adjourned to meet at 9.30 a.m. on Saturday, January 27.

. . . . .

Edmonton, Alberta,  
Saturday, January 27, 1945.

The Commission met at 9.30 a.m.

THE CHAIRMAN: What have you for us, Mr..Parker?

MR.PARKER: We will call the brief filed by the Alberta Millers.

MR. THORVALDSON: Mr.Chairman, may I make a brief remark or two in connection with the statement that was filed late yesterday afternoon on behalf of the Alberta government. That statement purports to indicate the attitude of the Alberta government to cooperatives, which of course is well and good, though it is difficult to see how that statement has anything to do with cooperatives. However, the statement having been made, I think -- I believe I am supported by some other counsel in this regard -- that the question becomes pertinent as to what was the attitude of that government towards the taxation of cooperatives at the time when the Alberta income tax was introduced, namely, before income tax was taken over by the Dominion.

I feel that before the Commission leaves Alberta, in consequence of the statement that has been filed with the Commission, your Commission should take steps to ascertain whether or not cooperatives were taxed under the Alberta Income Tax Act.

I do not know whether Mr. Brownlee would care to give that information. No doubt it is available, but if there is



any difficulty in securing it I have here excerpts from the evidence given before the Turgeon Commission, and if your Commission would like me to read those excerpts, Mr. Chairman, that would perhaps, as expeditiously as any other method that might be adopted, give you the information that I would like you to have. I leave that with the Commission, however; but I suggest that, the statement having been made on behalf of the Alberta government, the question becomes relevant as to whether or not cooperatives were taxed under the Income Tax Act of the province.

THE CHAIRMAN: Have you any comments, Mr. Parker?

MR. PARKER: I think the Commission should take into consideration what Mr. Thorvaldson has said.

THE CHAIRMAN: I assume the report of the Turgeon Commission is available to us. It is a public document.

MR. PARKER: Yes.

THE CHAIRMAN: The information which you desire to put in, Mr. Thorvaldson, is there, I take it?

MR. HOWARD: The information contained in that evidence, my lord, is very vague.

THE CHAIRMAN: Speaking for myself alone, I do not think the point is very serious.

MR. HOWARD: At any rate, you would at least have the judgment of this government, which declares itself to be in favour of cooperatives, as to what was in the public interest, according to its conception, in respect of taxation.

THE CHAIRMAN: In any event, that information could be obtained from the government with the greatest facility.

MR. HOWARD: We submit that it is pertinent to your inquiries. Having regard to the fact that this government has gone out of its way to declare its approval and support of





cooperatives, it is very pertinent to inquire what they did when they had the taxing power.

THE CHAIRMAN: There will appear in the record a note of what has been said by Mr. Thorvaldson and yourself, and if the Commission find, on returning to Ottawa and considering the matter, that the information in question is desirable or necessary they will get it. Does that meet your views?

MR. THORVALDSON: I do not wish to differ, Mr. Chairman, but the statement of the Alberta government has received wide publicity in the newspapers. They say -- and quite properly so -- that they have supported cooperatives, as in fact they have. I do not think anyone would suggest that the Alberta government has not given great support to the cooperatives, and there is no doubt that in that regard they are supported by public opinion. Therefore the statement, if it is true, indicates in part that the appointment of this Commission might be inferred to be an attack on cooperatives, which of course it is not.

This Commission is considering the question of taxation of cooperatives, and my submission is that the statement of the province, having received such wide publicity in the press, should have coupled with it the evidence of what was the attitude towards the taxation of cooperatives of the government of Alberta in the years 1937, 1938 and 1939 prior to the time when the income tax was taken over by the Dominion Government.

THE CHAIRMAN: That is not a matter of evidence but of public record which appears on the statutes of this province and can be obtained like any other public document. It is not a matter of evidence, and the statute will speak for itself.

MR. HOWARD: You cannot determine what taxes are collected in taxation statutes.

THE CHAIRMAN: I would prefer to leave the matter as it



stands now. The submission has been made, your comments have been noted, and we shall deal with the question if, as and when it seems necessary.

MR. VAUGHAN: I think the point should be given consideration and, as the chairman has remarked, it will be taken fully into account.

THE CHAIRMAN: We are agreed on that.

. . . . .

Alberta Millers

MR. PARKER: I understand that Mr. Winspear will present the brief on behalf of the Alberta Millers. Are there any portions of it that can be summarized, Mr. Winspear?

MR. WINSPEAR: Yes. With your permission we can do that.

MR. PARKER: And there are some recommendations more or less along the lines of those dealt with yesterday?

F. G. WINSPEAR,  
having been duly sworn,  
testified as follows:

BY MR. PARKER:

Q. You can use your discretion as to what parts can be omitted, but if it is necessary to read most of it you will have to read it, I suppose.

A. I will do the best I can. The brief reads:

Brief submitted on behalf of  
Alberta Millers' Association

"1. Introductory Statement with Respect to Alberta  
Millers' Association.

"The Alberta Millers' Association on whose behalf this submission is made, is an organization of about twenty independent millers operating throughout the province of Alberta. The association does not include amongst its members any large companies operating more than one mill, or possessing facilities in provinces other than the province of Alberta. On the



contrary its membership comprises small concerns investing local capital, and serving farmers and local consumers. Although a certain portion of the flour mill products are presently being exported, the majority of the sales of the members are made to consumers in this province.

"The local miller in Alberta invests capital and makes his living by the manufacture of flour mill products either on a custom basis, that is to say by receiving wheat from the farmer and by returning a like quantity of flour and milled products less a custom charge by the miller, or by purchasing grain outright and selling the finished products on the open market. In addition to milling flour and like products, local millers also manufacture such products as breakfast cereals and livestock feeds. The local miller is a trained technician; he must be skilled in the manufacturing and blending of the various products which he produces, he must have a knowledge of grades and types of grains, he must possess a knowledge of millwrighting and milling machinery. He is a man who has chosen the community which he serves, often a pioneer community, who holds the respect and confidence of both farmers and consumers, who tend to recognize the important part that he plays in the life of the community.

"Profits of the local millers are not large, are ordinarily dependent on operations ancillary to the milling of flour, and involve serious risks and hazards arising from crop conditions, world prices of grain and livestock and the competition of major milling companies.

## 2. Cooperatives in Milling Industry

"So far there are no known instances of cooperatives or so-called cooperatives entering the milling industry in the province of Alberta. Alberta millers are faced with a certain





measure of competition from a milling cooperative operating in the province of Saskatchewan, but so far this competition has not been serious. The independent millers are however alarmed at the growth of tax immune enterprises in other manufacturing industries, such as dairies and poultry marketers. The independent millers in Alberta do not fear open, free and fair competition, rather they welcome that competition as being an essential part of the system of free enterprise. Neither as loyal Canadians, do the independent millers object to high levels of taxation when their country is at war; they recognize that high taxation is an integral part of Canada's war effort. They are, however, alarmed at the growth of cooperatives and so-called cooperatives as a result of governmental subsidization, visible and invisible. They submit that the selling price of milled products must of necessity include three elements:

"(a) The cost of the grain and other raw materials and supplies.

"(b) Wages to the workmen.

"(c) A return on capital invested in land, buildings and machinery.

"If cooperatives having invested capital, are subjected to income and excess profits taxation on that portion of the earnings represented by a return on the capital invested in land, buildings and machinery, and are subjected to taxation on that portion of the earnings represented by the employment of labour, the Alberta Millers' Association would concur in a view that that portion of the earnings constituting a gain on the sale of the purchased ingredients might be returned to producer members in the ratio in which ingredients have been supplied.



"3. Present Provisions of Section 4(p) of Income War Tax Act are Unfair and Incapable of Administration

"The independent millers submit that the present provisions of Section 4(p) are unfair and incapable of effective administration in the following particulars:

'(a) The section provides that 'Associations may market the produce of, or purchase supplies and equipment for non-members of the company or association provided the value thereof does not exceed twenty per centum of the value of produce, supplies or equipment marketed or purchased for the members or shareholders.' It is suggested that this provision is contrary to the principles of mutuality. A cooperative as such is intended to market the produce of its members. If it is not performing that function wholly and mutually, then it is no longer a cooperative and in part at least is an ordinary trading concern. Furthermore the section is of necessity difficult of effective administration, for it places an implied onus on the administration to continually examine the affairs of cooperatives to ascertain to what extent they are dealing with the public and to what extent they are trading with their own members.

"(b) The section provides that such associations may 'market the products of the members or shareholders of such cooperative organizations'. The section, however, and the context of the Act do not define the meaning of the term 'market'. (It is submitted that it cannot possibly mean market through manufacture or treating, and it is administratively difficult to ascertain where marketing ends and manufacturing begins.)

'(c) The section provides that the 'exemption shall





extend to companies and associations owned or controlled by such cooperative companies and associations and organized for the purpose of financing their operations.' It is suggested that the earnings of financial organizations so controlled, may well include investments in bonds and shares which are ordinarily taxed in the hands of other citizens, but which would thereby become immune in so far as such income inures to the benefit of cooperatives. Furthermore it is suggested that this provision leaves a significant loophole for tax avoidance.

"4. Tax Immunity of Cooperatives is Contrary to Public Interest

"The independent millers submit that the tax immunity of cooperatives and so-called cooperatives is contrary to the public interest because:

'(a) Loss of Governmental Revenue

Income and excess profits taxation is based on the ability to pay. An increasing portion of national income is flowing through cooperatives. As a result the government of Canada is sustaining a substantial and significant loss of revenue without a proper regard as to whether or not the recipients of the income are in a position to pay income and excess profits taxation thereon.

'(b) Danger to public morale. It has been repeatedly emphasized that dollars are fighting the war even as men and materials. It is essential that the morale of the citizens on the home front be maintained at a high level, and that the present high rate of taxation be accepted without endangering the principles of private initiative and free enterprise. Tax immunity of certain businesses is in the opinion of the independent

1. The first of these is

the fact that the system is not in equilibrium.

2. The second is the fact that the system is not in equilibrium.

3. The third is the fact that the system is not in equilibrium.

4. The fourth is the fact that the system is not in equilibrium.

5. The fifth is the fact that the system is not in equilibrium.

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15. The fifteenth is the fact that the system is not in equilibrium.

16. The sixteenth is the fact that the system is not in equilibrium.

17. The seventeenth is the fact that the system is not in equilibrium.

18. The eighteenth is the fact that the system is not in equilibrium.

19. The nineteenth is the fact that the system is not in equilibrium.

20. The twentieth is the fact that the system is not in equilibrium.

21. The twenty-first is the fact that the system is not in equilibrium.

22. The twenty-second is the fact that the system is not in equilibrium.

23. The twenty-third is the fact that the system is not in equilibrium.

24. The twenty-fourth is the fact that the system is not in equilibrium.

25. The twenty-fifth is the fact that the system is not in equilibrium.

26. The twenty-sixth is the fact that the system is not in equilibrium.

27. The twenty-seventh is the fact that the system is not in equilibrium.

28. The twenty-eighth is the fact that the system is not in equilibrium.

29. The twenty-ninth is the fact that the system is not in equilibrium.

30. The thirtieth is the fact that the system is not in equilibrium.

31. The thirty-first is the fact that the system is not in equilibrium.

32. The thirty-second is the fact that the system is not in equilibrium.

millers endangering the willingness with which non-cooperatives pay income and excess profits taxes, tending to encourage evasion and minimization of income and excess profits taxes, and is prejudicing the war effort.

'(c) Encourage monopolies

Enterprises subject to income and excess profits taxes are paying anywhere from thirty per cent to eighty per cent of their revenue to the government and cannot compete with tax immune enterprises because:

- (1) They are unable to provide adequately for the obsolescence of plant and equipment.
- (2) Their expenses are subject to control.
- (3) They are unable to encourage new capital.

As a result there is increasing danger of monopoly of tax immune enterprises. Monopoly is contrary to public interest in the milling industry, it ultimately would require the socialization of the industry or governmental control as a utility. The loss of free competition in the milling industry would:

- (1) Result in loss of efficiency in milling methods, increase prices of milled products to consumers, and decrease service both to producers and to consumers.
- (2) Discourage the risking of capital in pioneer settlements, a function which members of this association have performed in the past and will be ready to perform in the future.

"5. Subsidization of Cooperatives

"Producer cooperatives in Alberta have commenced without the investment of capital -- with a fixed return or otherwise. Most of them have started through loans made to them by the





provincial government, and have 'ploughed back' their tax immune earnings into plant, equipment and other investments. Income and excess profits tax immunity constitutes invisible subsidy of vital importance. Whereas the independent millers recognize that there may be some justification for a subsidy to cooperatives in the 'infant industry' stage of development, continued invisible subsidy through tax immunity, indeterminate, in amount and uncontrolled, is contrary to the public interest. Originally tax immunity was given to cooperatives in 1917 when income and excess profits tax rates were only at a small percentage of their present level. There is no justification for the continuance of tax immunity at the present time and under present conditions.

"6. Proposals

"The independent millers therefore propose:

- "(a) That cooperatives in the milling industry should be taxed on that portion of the income which may be said to have been derived from the rental value of land, buildings, machinery and equipment
- (b) That cooperatives in the milling industry should be taxed on that portion of the income derived from the employment of labour.
- (c) That section 4 (p) should be amended
  - (1) to require complete mutuality.
  - (2) to rescind provisions relating to the ownership of financing companies.
  - (3) to clarify the meaning of the term 'marketing'.

"Alberta Millers' Association

Per "W.A. Krause" President

Per "L. G. Byers" Vice-President

Per "N.A. MacEachern" Secretary.

Edmonton, Alberta,  
January 18, 1945.





"A complete list of the members of the Alberta Millers' Association is attached hereto.

Members of Alberta Millers' Association

Andrew Flour Mill Company	Andrew, Alberta
Antruik Flour Mill	Innisfree
Eckville Milling Company	Eckville
Byers Flour Mills	Camrose
Chinook Flour Mill	Okotoks
Castor Flour Mill	Castor
Claresholm Flour mill	Claresholm
Delia Flour Mill	Delia
Gas City Flour Mills	Medicine Hat
Gleichen Milling Company	Gleichen
Radway Flour Mills	Radway
Lac la Biche Flour Mill	Lac la Biche
MacEachern Milling Co. Ltd.	Wetaskiwin
Mundare Flour Mill	Mundare
Nanton Milling Company	Nanton
Rosebud Flour Mills	Didsbury
Standoff Flour Mill	McLeod
Stettler Flour Mills	Stettler
Smoky Lake Milling Co.	Smoky Lake
Sterling Flour Mills	Strome
Sexsmith Milling Company	Sexsmith
Taber Flour Mills	Taber
Weder Flour Mills Ltd.	Vilna
W. R. Wiebe & Sons	Vermilion
Vegreville Flour Mill	Vegreville
Vulcan Flour Mills	Vulcan
North West Mill & Feed Co.Ltd.	Edmonton, 102nd St. & Sask.Drive
Mr. W.A. Krause	Edmonton, 10649 Sask. Dr.
Mohler Flour Mill	Chaton

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Athabasca Flour Mill	Athabasca
Wainwright Flour Mill	Wainwright
Innisfail Flour & Feed	Innisfail
Rockport Colony Flour Mill	Magrath
Sunnyview Flour Mills	Sunnyslope."

. . . . .

BY MR. O'CONNOR:

Q. Have you anything to add to that? A. I do not think so.

BY MR. PARKER:

Q. In the first part of your brief, on page three, you deal with the same subject matter as you dealt with yesterday in one of the other briefs, and you say that the selling price of mill products must of necessity include cost of grain and other raw materials, and supplies, wages of workmen, and return on capital invested in land, buildings and machinery. Do I understand you to suggest that as to the last two, wages of workmen and return on capital invested in lands, buildings and machinery, that cannot be said to be an increase in the purchase price of raw materials? A. Yes.

Q. You make that distinction. That is your argument? A. Yes.

Q. Bearing in mind that all taxation schemes must be based, not on any moral ideal but on what is practical in the economy in which the taxes are sought, would you think that was practicable in the set-up as you know it? A. To make that distinction?

Q. To make that distinction and to keep accounts on that basis. A. Yes; I think it is essentially practical. It is being done in England. England does make that distinction and divides it into five different sections. I do not say that





necessarily the accounts should be kept on that basis; but if it becomes necessary at any particular stage to make an arbitrary distinction, the principles of cost accounting can be so applied that the ascertainment of income could be made and it would be at least no more arbitrary than other distinctions which are continually being made.

Q. You agree that it would be somewhat difficult.

A. Oh yes. The ascertainment of income is always difficult.

Q. At the bottom of the page you say it is suggested that this provision is contrary to the principles of mutuality, and that a cooperative as such is intended to market the produce of its members. On this question of mutuality, do I understand you to say that, in order to come within that principle, business transactions must be restricted to those that are carried on between the association and its members?

A. Yes, I think so; because if a concern is in a position to buy and sell to the extent of twenty per cent with the general public, and adopts exactly the same procedure with the general public as with its own members, it is hard for me to see that with respect to eighty per cent it performs a special function while, with respect to the other twenty per cent, it buys and sells as an ordinary concern.

Q. What bothers me a little is this. Let us take a so-called producer selling any commodity from the farm. Certain farmers form a cooperative and we have that legal entity, a corporate body? A. Yes.

Q. And we have individual members making up that body. Let us take wheat by way of illustration. To apply literally what you have just said, it would mean that the wheat produced by the members and handed over in some way to the legal entity, the body corporate, would be restricted in sale. The body corporate would be obliged to sell that wheat back to its



members, because once they go outside they deal with a third party. Must there not of necessity be transactions with parties other than the corporate body and its members?

A. That is true, in the sense that marketing does two things; it buys and sells. If the cooperative is buying wholly from its members and selling to the public, I would say that the principles of mutuality, as I understand the term, are complied with; or if it is selling wholly to its own members and buying from the public, then it seems to me there is a reasonable element of mutuality.

Q. That is different, is it not, from let us say the mutual insurance companies where a group of men get together and their transactions are restricted entirely to the members of the unit. They do not go outside anywhere? A. Yes; that is right.

Q. So that there are two types of mutuality in that sense? A. Yes.

Q. When you say "It is suggested that this provision is contrary to the principles of mutuality" what principles are you referring to? A. I am referring to the ordinary principles that apply to cooperatives and not to mutual insurance companies.

Q. On page seven, at the end of the brief, you suggest that section 4(p) should be amended so as to effect complete mutuality. You mean mutuality of the type you have been discussing? A. I mean the elimination of the twenty per cent provision. Section 4(p) says that the exemption shall extend to companies and associations owned or controlled by such cooperative companies or associations organized for the purpose of financing their operations. I think that is a tremendous loophole.

Q. You think it should extend to all concerns owned and



controlled by an exempted company?

A. No. If you are going to exempt a cooperative, don't exempt an entirely legal entity.

Q. Your suggestion is that that whole clause should be struck out, that wholly owned subsidiaries of an exempted company should not be exempted unless they are themselves true cooperatives? (No answer).

BY MR. ARNASON:

Q. Do you know of any association or company owned b or controlled by another cooperative organization and organized for the purpose of financing the operations of co-operatives?

A. No.

Q. I never heard of one either. A. I never heard of one. It appears to me as a wrong concept in the Act.

BY MR. PARKER:

Q. There are many cases where so-called cooperatives do entirely own subsidiaries engaged in various types of business, presumably to 'feed' or to assist in the carrying on of the business of the main cooperative?

A. I don't know of any but I have no doubt there may be.

Q. You don't know of any cooperatives that have wholly owned subsidiaries working closely with the parent company?

A. I have been informed that the Alberta Wheat Pool controls Alberta Elevators Limited.

Q. But you have no personal knowledge? A. No; I have no personal knowledge.

MR. HAM: For the purposes of the record only, with reference to Commission counsel's observation with respect to insurance, might I submit --

MR. PARKER: Does my learned friend want to ask the witness questions?

THE CHAIRMAN: It arises from the examination of the





witness. Mutual insurance was referred to.

MR. HAM: I will be brief. It is a common practice, I suggest, for mutual insurance companies to deal with third parties in respect of investments they buy by way of reserves and by way of re-insurance with re-insurers, so that the analogy is there; and also, in so far as they deal with non-assessable members, the situation is similar to the twenty per cent. That is only for the purposes of the record.

MR. O'CONNOR: The competition we experience comes from the Saskatchewan cooperative that operates at Outlook, Saskatchewan, and that is the Saskatchewan Cooperative Wholesale Society Limited and the Consumers Cooperative Refinery Limited, amalgamated under the name of the Saskatchewan Federated Cooperatives Limited. Under this Act Consumers Cooperative Mills Limited is a subsidiary of that main cooperative.

THE CHAIRMAN: I understand that is only a milling company operated on a cooperative basis.

MR. O'CONNOR: At the present time, yes. The present competition is not sufficient to bring them here. Consumers Cooperative Mills Limited is a subsidiary of the Saskatchewan Federated Cooperatives Limited.

WITNESS: There is this distinction between the position taken by independent millers and that taken by the independent dairies. The independent dairies contend that any concern not presently complying with their concept of the term "market" has not been a cooperative in the past and would not be a cooperative in the event of the amendment to section 4(P) which they propose being adopted.

BY MR. VAUGHAN:

Q. In this brief, Mr. Winspear, on page 7A you say that the independent millers propose that cooperatives in the milling industry should be taxed on that portion of income which would



have been derived from the rental value of land and machinery. Is that intended to include securities as well?

A. The paragraph does not say securities, but the independent millers would no doubt expect that cooperatives would be taxed on the income from securities.

Q. Referring to the brief submitted yesterday on behalf of the independent dairies, a question was asked with regard to the statement that true cooperatives should be taxed on investment income. The statement was that they should be, and the question was asked whether that was intended to cover just such items as you mention, like income derived from equipment, and the reply was that it was not intended to include from that source. There seems to be a difference between the two briefs. A. To this extent, that the independent dairies take the position that a cooperative can only perform the marketing function. If it attempts to manufacture, it is not a cooperative, and if therefore it has any investments other than marketable securities it is no longer a cooperative, as they propose to amend section 4(p).

Q. That is the contention. But suppose they do acquire lands, buildings and equipment and derive revenue therefrom?

A. Then they no longer comply with section 4(p).

Q. But in this latter case they would acquire and own lands, buildings and equipment, and you say that in that event the income from this source is taxable?

A. Yes.

Q. You say in one case that it would be a cooperative and in the other it would not be.

A. Those are two different proposals.

Q. Do you mean that the views of the people you represent are different? A. Slightly different, yes. In the case of the independent dairies, they propose that the act





should be so amended that the concern should not perform the manufacturing function, and in the event of getting heavy investments in lands, buildings and equipment it would be no longer a cooperative. The independent millers propose that if they are permitted to function cooperatively, in compliance with section 4 (p) of the Act, at least income from the ownership of land, buildings, equipment and the employment of labour should not be tax exempt.

BY MR. ARNASON:

Q. Turning to page four of the brief, in the middle of the page, clause (b), you say that section 4(p) provides that an association may market the products of members or shareholders, and you say that the Act does not define the meaning of the term market. That is true. But you go on to say:

"It is submitted that it cannot possibly mean market through manufacture or treating, and it is administratively difficult to ascertain where marketing ends and manufacturing begins."

I must confess that I am not very clear as to where you find the basis for the statement that section 4(p), as worded at the present time, does not include at least processing or marketing to the extent to which the product of the producer can be sold to some consumer or some buyer. I was wondering, in this connection, whether you had considered or read the reports in Hansard of the discussions that took place in April, 1930, when this section was inserted in the Act.

I believe that the section was inserted at the request of certain cooperatives, including the Cooperative Union of Canada and the Fraser Valley Milk Producers Association, which certainly includes among its functions that of processing the product delivered by its members. I would like to know the basis on which you make that statement when you say:



"It is submitted that it cannot possibly mean market through manufacture or treating, and it is administratively difficult to ascertain where marketing ends and manufacturing begins." Do you make that statement on the basis of what you consider the intention of parliament to have been, or on what do you base it? A. I would base it on what I should think would be the sensible intention of parliament. The word "market" is defined in the dictionary as meaning to buy and sell. We had a statement filed before the commission yesterday by a so-called cooperative which has in its selling price fifty per cent of the expenditures which it has made on such things as power and light, supplies, workmen employed -- in fact, a list of expenditures other than the purchase of ingredients. That constitutes fifty per cent of the selling price. Is it not just as reasonable to say that the selling price is comprised of the net figure after the deduction of cost of ingredients, and that the rest should go to the power company and the labourers and so on, as it is to say that the selling price should be reduced by the amounts paid to power companies and labour, and that what is left goes to purchase supplies and ingredients? One conclusion is as satisfactory as the other.

Q. Well, are you not rather narrowing the meaning of the word "market" there? I would put it this way. A cooperative marketing, say, dairy products could only take delivery of sweet cream and sell that sweet cream to some other manufacturing concern. If it carries the process to the extent of having the cream churned into butter and the butter sold to consumers, then is it your opinion that it is not performing the functions of a true cooperative?

A. Certainly not for taxation purposes. I cannot see any



objection to people doing that sort of thing, but if various people were supplying ingredients to a corporate body and that corporate body employed labour, using plant, buildings and equipment, then I say that for taxation purposes that corporate body should be taxed.

Q. So that when you say, "It is submitted that it cannot possibly mean", and so on, referring to section 4(p), you are giving us your interpretation of what that section should have meant rather than the intentions of parliament when it enacted the section? A. I am placing an interpretation on what I would have thought the intention of parliament would be. I have observed that parliament sometimes becomes confused as to what its own intention is.

BY MR. ELLIOTT:

Q. Does the recommendation of the Alberta Millers' Association include the computation of imputed profit in difficult cases in each year, as in the case of the independent creameries? A. Yes.

Q. Is it your submission that under these conditions it would be less necessary for the administration to be continually examining the affairs of cooperatives than at the present time, under section 4(p) they are under the necessity of ascertaining to what extent the cooperative is dealing with members? A: I would say that the cooperative milling concern, in filing its financial statements, would require to make its own estimate and come to its own conclusions as to income which had been derived from these other sources, and the Income Tax Department would satisfy itself whether the conclusions were reasonable, exactly as it would in the case of any other taxpayer. The determination of the extent to which a cooperative or a so-called cooperative does business with the





public is a very much more onerous burden to place on the Tax Department. It may well be that one month they are doing twenty-five per cent or thirty per cent and the next month only ten per cent, because conditions change very rapidly. It seems to me therefore that an almost continuous examination is necessary to make sure that this particular provision in the Act is being administered. It is a very difficult thing to try to do.

. . . . .

Independent Egg Hatchery Operators

MR. PARKER: The next brief to be submitted is from the Independent Egg Hatchery Operators. I believe Mr. Winspear is going to present it.

MR. O'CONNOR: Before calling Mr. Winspear may I make a short statement. This brief has been filed on behalf of the independent hatcheries, but no brief has been filed by Alberta Poultry Producers Limited who are in competition with the independent hatcheries in this province. We were able to search the records in the Registrar's office and we found their memorandum of association. That is the only information we were able to get except what we learned, which we cannot give in evidence; but I have checked the set-up with Mr. Fitzpatrick, who is the supervisor for Alberta. He is here, and if in my description of the set-up I am wrong he will correct me. It is a complicated arrangement, and before we put the brief in perhaps I should explain the matter to the best of my ability.

The Act is 253 of the Revised Statutes of Alberta, 1942, entitled The Alberta Marketing Act. That is the first act, and under it, in the first section of Part II, a Provincial



Marketing Board in set-up. Under Part III the Provincial Marketing Board apply to the Lieutenant Governor to have a corporation constituted under the Act, and the objects of that corporation are set out in section 17 of the Act. The Lieutenant Governor in Council, by order in council, then creates the corporation, which in this case is termed the Alberta Poultry Marketers Limited. That is the next body. That was created by order in council -- O.C. 45/43, dated January 13, 1943.

That body in turn files a memorandum and articles of association. We have these, which we can refer to.

Then we turn to the next Act, the Cooperative Marketing Association Act, which is chapter 251 of the same Revised Statutes. Under it, Alberta Poultry Producers Limited -- that is the next corporation -- was incorporated and we have the memorandum and articles; at least we refer to them and they are available to the public. With respect to the company set-up by order in council under this Act, on the application of the Board to the Lieutenant Governor in Council, under section 18, it is provided that the corporation so formed shall be a wholly owned subsidiary of the Board -- in this case the marketing board.

In other words, we have Alberta Marketers Limited, which is a wholly owned subsidiary of the Board, and the Board is the Board of the province of Alberta; so that this Marketers Limited is a wholly owned subsidiary of the government of the province of Alberta. That is the effect of it.

Between that body and Producers Limited there must be an agreement. That agreement is in their possession and we have not been able to get it. It is not open to us, but we have set out in our brief our understanding of the arrangement





between these two bodies. Mr. Fitzpatrick is here and if those facts as disclosed by us are not correct he can correct them.

THE CHAIRMAN: Perhaps you can call him and he can briefly confirm the statement, if he will do so.

MR. O'CONNOR: He has no personal knowledge of the matter. He has not examined the agreements himself but he telephoned to the department and he confirms what I have put in my brief; but if there is anything wrong he will correct it.

MR. FITZPATRICK: I confirmed practically all that you said but not in your brief.

MR. O'CONNOR: I understand. What I have told you is set out in the brief.

MR. F. G. WINSPEAR, recalled.

BY MR. O'CONNOR:

Q. Perhaps you will read the brief now, Mr. Winspear.

A. It is as follows:

Mr. WINSPEAR, (reading):

Brief for Submission on behalf of Independent  
Hatcheries in Alberta

"1. Introduction

"This submission is made on behalf of the independent egg hatchery operators in Alberta. The egg hatchery on receipt of a quantity of eggs from the farmer utilizes incubation equipment to hatch the eggs and divides the proceeds from the sale of the chicks equally between itself and the farmer, subject to a one-half cent bonus per chick to the farmer. The flocks from which hatchery eggs are produced are subject to governmental approval and supervision, including blood tests. The hatcheries have played and are playing an important part in the economy of poultry production in the province. The farmer is saved heavy losses attendant on the natural method of incubation, is able to maintain and improve the grade and strain of his poultry, is able to protect himself against heavy



mortality in young chicks, and generally is able to increase his income from poultry sources.

"Artificial egg hatchery is a comparatively new industry, but its importance may be noted from the substantial increase in the poultry population of Alberta in the last few years. In 1936 to 1939 the poultry population of the province was 8708 M, and it is known that the trend of increase has been maintained in 1943 and 1944. The operator of egg hatcheries is specially trained -- he must be fully informed as to the nature and grades of eggs, of poultry strains and of the nutritional value of feeds best adapted to the maintenance of poultry to a proper degree of health and fertility. At certain times of the year the egg hatchery operator works as much as eighteen and nineteen hours a day; he literally lives, eats and sleeps at his place of business.

"The egg hatchery being a new business, its operators are in a particularly difficult position with respect to income and excess profits taxation. Operators have a limited pre-war record of profits on which to base their standatds for excess profits tax purposes, and are faced with rapidly expanding requirements for hatchery and incubation equipment which is rapidly being developed. They operate not only with a substantial capital investment in equipment, but they also rely on the employment of trained and skilled personnel. They constitute one of those classes in the economy of the country, who would ordinarily expect to develop and improve their enterprises by the retention of profits. Furthermore, the egg hatchery business is subject to all of the known hazards particularly characteristic of agricultural endeavour, including world prices of eggs and poultry, the supply and demand of poultry products, weather and epidemics, The prudent operator would ordinarily expect in such a hazardous business





to create for himself during periods of prosperity such reserves as would enable him to continue his services to the community during periods of agricultural depression. Present rates of income and excess profits taxes deny the independent operator the opportunity to create such reserves, whilst at the same time the opportunity is permitted to his tax immune competitors.

"2. Legal Organization of Alberta Poultry Producers Limited

"The independent egg hatcheries in Alberta are faced with an increasing measure of competition from a so-called cooperative organization known as Alberta Poultry Producers Limited. Alberta Poultry Marketers Limited, was incorporated under the Alberta Marketing Act and is a wholly owned subsidiary of the Alberta Poultry Marketing Board, a government board which is also set up under the Act. All shares of the company are owned by the members of the board, who hold them in trust for the government of the province of Alberta.

"During 1943 Alberta Poultry Marketers Limited purchased Johnson's Hatcheries Limited of Edmonton, and have purchased other hatcheries elsewhere in Alberta. These hatcheries are owned and the business is carried on by Alberta Poultry Marketers Limited.

"Alberta Poultry Producers Limited on the other hand was incorporated under the Cooperative Marketing Associations Act. The members of Alberta Poultry Producers Limited deliver their products to Alberta Poultry Marketers Limited who receive them as agents for Alberta Poultry Producers Limited.

"Alberta Poultry Marketers Limited receives poultry, which it feeds and fattens, kills and dresses. It receives eggs, operates a large egg drying plant and packages, and delivers the eggs to a Dominion government agency. It also operates an egg hatchery.





"When the members of Alberta Poultry Producers Limited deliver their products to Alberta Poultry Marketers Limited, Alberta Poultry Marketers Limited makes an initial payment to the members as agents for Alberta Poultry Producers Limited. Alberta Poultry Marketers Limited, after processing, sells the finished product and returns to the so-called cooperative the purchase price less all charges for its operations including depreciation, salaries, advertising and general expenses.

"Alberta Poultry Producers Limited receives this money, and deducts:

- (1) Its own charges for operations,
- (2) Not more than two per cent of the gross selling price to form a reserve to be used for promotion and education,
- (3) An amount not exceeding six per cent to form a reserve to be used to purchase assets either from Alberta Poultry Marketers Limited, or from anyone else.

"The articles of association of Alberta Poultry Producers Limited provide that:

"The Board may, in its sole discretion, from time to time, establish different classes of members with or without voting rights and privileges, and may alter the same from time to time.'

It is provided that:

"Any producer of poultry, who has signed and delivered an application for members, and has been accepted, shall be a member with voting rights.'

and that:

"Any producer of poultry who has not signed an application for membership, but who, on a pool basis, ships poultry or makes use of the marketing facilities of the Association, shall thereby be a member of the association



for the current fiscal year, but shall not have any voting rights in the association.

"3. Tax Discrimination Against Private Enterprise

"The tax immunity of cooperative corporations is discriminatory to non-cooperative corporations for the following reasons:

(a) Cooperatives are Incorporated Companies

Cooperatives or so-called cooperatives as incorporated under the Cooperative Marketing Associations Act or the Cooperative Associations Act or the Alberta Marketing Act, are incorporated bodies and are, therefore, a legal entity apart from their members. They are subject to all the tests of corporate existence --

1. Legal entity,
2. Limited liability,
3. Perpetuity of existence.

The concept of mutuality upon which tax exemption is claimed by cooperatives or so-called cooperatives, ignores the existence of this entity. The balance sheets and financial statements of cooperatives reflect the assets and liabilities thereof, and the surpluses and reserves which supposedly inure to the benefit of the members, but no member can point to any part of the undistributed surplus as representing specifically his eggs or his dollars, and claim a right to dispose of that part of the surplus. On the contrary no debt is created due or payable by the association to the member, even after the directors have by resolution fixed the amount payable thereto. By section 19(2) of the Cooperative Marketing Act, being Chapter 251 of the Revised Statutes of Alberta 1942;

"The directors shall have power from time to time by resolution to pay over to the members of the





association such part of the price of the commodity or commodities so sold as they shall deem advisable, but such resolution shall not be deemed to create a debt due or payable by the association to the members or any of them.'

In fact, therefore, the earnings of Alberta Poultry Producers Limited, inures to it as a corporate body, and should be subjected to income and excess profits taxes in the same sense as the earnings of non-cooperative corporations.

(b) Taxable Income is Not True Income

"The Income War Tax Act, section 6 (a) provides that

'A deduction shall not be allowed in respect of disbursements or expenses not wholly, exclusively and necessarily laid out or expended for the purpose of earning the income.'

Furthermore depreciation shall not be allowed under Section 6(n)--

"'Except such amount as the Minister in his discretion may allow.

Furthermore under section 6 (2):

"'The Minister may disallow any expense which he in his discretion may determine to be in excess of what is reasonable or normal for the business carried on by the taxpayer, or which was incurred in respect of any transaction or operation which in his opinion has unduly or artificially reduced the income.'

Furthermore under Section 6(3):

'For the purpose of determining earned income the Minister may reduce the amount of any salary, wages, fees, bonuses, gratuities or honoraria, which, in his opinion, are not commensurate with the services actually rendered, and the amount of such reduction shall be treated for the purposes of this Act as investment income.



The decision of the Minister on any question arising under this subsection shall be final and conclusive.'

"These sections of the Income War Tax Act have an important bearing on the ascertainment of taxable income for non-cooperative corporations, and they are also a significant aspect of wartime control measures against inflation. In fact, therefore, taxable income is not synonymous with true income. H.H. Stikeman, Assistant Deputy Minister of National Revenue (legal) in a lecture to the Law Society of Upper Canada in 1944 stated 'Income for tax purposes is an artificial concept and does not necessarily bear any relationship to the ordinary business or accounting understanding of the term.' Because taxable income is artificial, non-cooperative corporations are unable to make provision for obsolescence find difficulty in maintaining an adequate repair policy, are unable to retain out of income reserves to protect them against post-war conditions, and are limited in the amounts which they may pay for advertising and salaries. The burden of such limitations does not rest upon cooperative corporations relieved from the ambit of the act.

(c) Cooperative Corporations have funds available for Expansion and Competition

Non-cooperative corporations pay income and excess profits taxes ranging from thirty per cent to eighty per cent of their income at present rates. They are limited to fixed profits exclusive of the refundable portion. Cooperative Corporations are not so limited in their earnings, and may and do use tax immune profits for expansion and competition. The loss of government revenue in this respect is unquestionably significant. In July 1943 the secretary of the Alberta Poultry Producers Limited was quoted in the Co-Op News as saying:

"During twenty months of operations, after paying



current market prices to their members and defraying all expenses in connection with operating their business, they have paid their members the large sum of over \$100,000 in the form of final payments."

and in September 1944 an advertisement in the Co-Op News by the Alberta Poultry Producers Limited, stated that

'During the month of May final payments on eggs, live poultry and dressed poultry amounting to \$153,000 for the year ended March 31, 1944 were distributed to members.'

The loss of tax revenue is cumulative in its effect.

- (1) There is the loss arising from the existing immunities.
- (2) There is the loss arising from the restriction in the field of private endeavour which would be taxable.
- (3) There is the loss arising due to pressure of unfair competition which results in private enterprise being forced out of business to the cooperative corporation. This may be illustrated by the substantial income and excess profits taxes which are said to have been previously paid by Johnson's Hatcheries Limited, purchased by this cooperative association in 1943; and the thirteen branches purchased from Burns & company Limited, in the same year.

- (d) Income Taxing Authority is concerned with the Source not the Disposition of Income

'It is a tenet of income and excess profits taxation that the taxing authority is concerned not with the disposition of income but with its source. When the income of a cooperative corporation, which has acquired title to products by payment of a purchase price, and surrendered title by sale, is paid to members or so-





called members in the guise of final payments or patronage dividends, it should be subjected to income and excess profits taxes in the same way that income of non-cooperative corporations which is afterwards paid to shareholders as dividends.

4. Tax Immunity Against Public Interest

"Tax immunity is against public interest for the following reasons:

- (a) There is a substantial loss of government revenue. This has already been referred to and is of significance particularly during wartime.
- (b) There is a sense of injustice which of necessity arises in the minds of many Canadians as a result of competitive corporations obtaining tax immunity.
- (c) There is a trend towards monopoly. This is a very real danger. Monopoly in the egg hatchery business is against public interest because it removes that element of competition which assures both farmers and consumers freedom of choice with whom they will deal, and to whom they will sell. This freedom of choice tends to increase prices to farmers, to reduce prices to consumers, and to encourage measures of efficiency. Furthermore the withdrawal or removal of private capital tends to place the responsibility of pioneer risk on the shoulders of the farmer -- who is already subjected to peculiarly heavy hazards and risks. It should be noted that the three big dairy pools have blanketed the province of Alberta but have refrained from entering into competition with each other, one taking the southern part of the province, one the central part of the province and one the northern part of the province. Each of them operated a poultry



business until the advent of the Alberta Poultry Producers Limited. At once each of the three dairy pools turned over their poultry business to Alberta Poultry Producers Limited. (Co-Op News July 1943). It also should be noted that when the Northern Alberta Dairy Pool Limited purchased the egg and poultry business from Burns & Company, Limited, it turned over the operation of the egg and poultry business at thirteen points in Alberta to the Alberta Poultry Producers Limited. (Co-Op News October 1944). This, it is submitted, is illustrative of the imminence of the danger of monopoly by tax exemption of cooperative corporations in the egg hatchery business.

"5. Proposed Remedies

"For the reasons presented herein the independent egg hatchery operators, on whose behalf this submission is made, propose that so-called cooperative corporations be placed on exactly the same footing as non-cooperative corporations. They, therefore, recommend that the Income War Tax Act be amended so as to give the Minister discretionary powers to define the income of so-called cooperative corporations either by expressing the income as being the excess of the proceeds from sales over the purchase price at the time that the cooperative corporation receives title to the produce less such expenses and reserves as are ordinarily allowed, or alternatively to give the Minister power in defining income to take into consideration, if necessary or desirable, the fair rental value of land, buildings and equipment owned and operated by cooperative corporations, the fair return to be derived from labour employed and/or a fair return on capital invested in the assets of the cooperative corporation.

"Submitted on behalf of the independent egg hatchery





operators in Alberta.

"Winspear, Hamilton, Anderson & Co.  
Chartered Accountants;

Gerald O'Connor, K.C.  
Barrister & Solicitor.

Edmonton, Alberta,  
January 20, 1945."

. . . . .

MR. O'CONNOR: We have a list of the egg hatcheries on whose behalf this is submitted. I do not know whether my explanation of the incorporation, or the brief, has made the situation plain to the Commission, but it is this. Alberta Poultry Producers Limited is a wholly owned subsidiary of the government of Alberta, who buy the plant and equipment and operate that plant and equipment. The pool members deliver their products to the government subsidiary, who accept them as agent for the pool, making, as agent only, an advance to the member of the pool. Then they process the goods; that is, the government process the goods and sell them. They receive the money and make all their deductions, which are enumerated in the brief, and then hand the money back to the pool through the cooperative. The cooperative make their deductions, which after all are merely bookkeeping expenses of keeping the record, or something of that kind, because they are not operating. They deduct reserves of two per cent and six per cent and then they distribute what is left to the members of the cooperative.

Here you have the government in business, operating and carrying the whole load of distributing the money, the proceeds, back to the pool, who in turn make certain deductions with a view to building up a reserve so that they can buy the buildings from the government, Alberta Marketers Limited, or from anyone else.



"The pool has been in operation only two years. The first year, 1943, I am informed, they did business of two and a half millions and in 1944 its business has been doubled and will run to approximately five millions. Those are the facts.

BY MR. PARKER:

Q. There are very few questions I want to ask. Turn to page eight, sub-paragraph three. You might look at that, Mr. Winspear, I suppose you have no knowledge how much in taxes Johnson's Hatchery formerly paid. Being a limited company they would pay, you take it for granted, whatever they had to pay? A. I have knowledge, but I am not in a position to divulge it.

Q. In your brief, on page eight, you say that it is a tenet of income and excess profits taxation that the taxing authority, and so on. On what authority do you make that statement? Is it a tenet of your own or a tenet of the government? A. A tenet of the government; and I think it is a tenet of law. I could get authorities, if you like.

Q. A tenet of law? A. A tenet of taxation law.

Q. It has been judicially interpreted that way?

A. Yes.

Q. I would appreciate it if you could send me a memorandum in support of that statement? A. Yes.

Q. I have heard discussions to the effect that the motive behind the acquisition of what you would call income may possibly have a bearing on the question whether that income is taxable or whether it is profits within the meaning of the Income Tax Act. A. The motive?

Q. The motive as distinct from the source. Perhaps I can amplify the question in this way. As you know, these co-operatives are set up with the avowed purpose at any rate, not of making profits or income, in the sense in which we have



been talking of income, but of getting a better price in the sale of their commodities, or with a view to purchasing at a lower price. Therefore, having set up machinery for the purpose of attaining that object, the motive or purpose is a factor that should be taken into consideration in answering the question, "Is this a surplus or a saving, or what is it? Is it really profits?" Would that affect the nature of the thing? A. I would be interested to see the authorities you have.

Q. I do not say there is any authority for it. I say it has been so argued. Now you have made a considerable study of this matter? A. It seems to me that for a taxpayer to be in the position of saying, "I made \$50,000 this year but I did not intend to make money and I don't think this money should be taxable" would place the administration very quickly in an impossible situation.

Q. In other words, you do not consider that such an argument has any weight?

A. It does not fit in with my understanding of tax administration.

BY MR. NADEAU:

Q. Have you any idea of the aggregate business done by the independent hatcheries?

A. No, I am sorry; I have no idea, Mr. Nadeau.

Q. Is it comparable in any way with what the government cooperative is doing?

MR. O'CONNOR: We will get that for you. In my outline of the set-up I omitted one thing, namely, the question of interlocking directors. These two corporations, the government owned body and the pool, have the same set of directors.

BY MR. VAUGHAN:

Q. On page three the brief states that Poultry Producers





Limited receives the money and deducts its own charges, not more than two per cent in one case and six per cent in the other, and so on. How is that fixed, by by-laws or agreements?

A. By the articles of association.

Q. It is not just a statement on your part? A. No.

BY MR. ARNASON:

Q. Do you know whether any provision is made in the Act whereby the cooperative body, the Alberta Poultry Producers organization, will eventually acquire control of any assets which are now in the hands of Alberta Poultry Marketers Limited? I am not clear as to whether that is dealt with in the brief

MR. O'CONNOR: There would be nothing in the Act. There is no doubt an agreement between them. I understand that poultry producers have taken an option on the Marketers but they will not give us the agreements or any information about them.

MR. VAUGHAN: Should we not get from the cooperatives in this business their articles of association, their certificates issued and any agreements you may have?

MR. O'CONNOR: The articles and memorandum are on file. There is no difficulty about getting them. As to the agreements, the Commission could order them produced.

MR. PARKER: As to these agreements which Mr. O'Connor says he is unable to get, to what department would you apply for them?

MR. FITZPATRICK: The department of Trade and Industry.

MR. VAUGHAN: I suggest that they should be supplied.

THE CHAIRMAN: We shall have to do it by formal request.

MR. O'CONNOR: If the Commission will intimate to Mr. Fitzpatrick its wishes in the matter, I have no doubt he can arrange with the Deputy Minister to get them.



MR. FITZPATRICK: I could ask the Deputy Minister. He is president of the Board.

THE CHAIRMAN: Perhaps an official request from the Commission --

MR. FITZPATRICK: -- would be far more effective than by my acting as messenger.

THE CHAIRMAN: A request will be made, on Mr. Vaughan's suggestion, that these documents be made available.

MR. PARKER: There is a short brief filed by the Insurance Agents Association. The representative is here and perhaps we could deal with that next.

. . . . .

Insurance Agents Association

PERCY HERRING,  
Member of Insurance Agents'  
Association, having been duly  
sworn, testified as follows:

BY MR. PARKER:

Q. In what capacity do you appear? A. As a member of the Insurance Agents Association, a member of the committee appointed to submit the brief.

Q. That is an association of which city?  
A. Of the city of Edmonton.

Q. The brief you are about to present was prepared by whom? A. By a committee of insurance agents representing agents associations in the four cities mentioned.

Q. Did you confer with that committee? A. Yes, I am one of the committee.

Q. And the brief embodies the considered views of that committee? A. The considered views of these four associations.

Q. How were the views here expressed submitted to the members of the associations?





A. At meetings in their various locations.

Q. The matter was generally discussed and this is an attempt to set down the views of the members at large as they understood them? A. Yes. These associations have been established for some twenty-eight years and they work in close cooperation for the benefit of the business and of the public. They are not cooperative in the sense in which the word has been used here so much.

Q. About how many members are represented? A. One hundred and forty.

Q. And those members are insurance salesmen? A. They are agents maintaining offices representing fire insurance and other insurance companies.

Q. Including life? A. Not life.

Q. Most of these members carry life? A. No. This association is only in respect of fire and casualty insurance operations.

Q. I suppose most of these members represent various companies? A. That is so.

Q. Sometimes quite a large number? A. Yes.

THE CHAIRMAN: They represent no mutuals?

WITNESS: No.

BY MR. VAUGHAN:

Q. These companies do no business with mutuals? A. The agents for whom I am speaking do no business with mutuals. With your permission I will now read the brief.

WITNESS (reading):

"Submission to the Royal Commission on  
Taxation made by the:

"Insurance Agents' Association of Edmonton  
Insurance Agents' Association of Calgary  
Insurance Agents' Association of Lethbridge  
Insurance Agents' Association of Medicine Hat



"On behalf of the members of the above enumerated Associations representing over one hundred and forty insurance agencies transacting business in the province of Alberta and on behalf of their many employees, the following is submitted with deference for the consideration of the Commission.

"We the said agents, submit that our future and that of our employees, our families and the families of our employees is seriously affected by section 4G of the Income War Tax Act, reading as follows:

"Income War Tax Act

Part II, Section 4

Incomes not liable to tax, subsection (g)

(g) Mutual Corporations - The income of mutual corporations not having a capital represented by shares, no part of the income of which inures to the profit of any member thereof, and of life insurance companies except such amount as is credited to shareholders' account.

because of the fact that the exemption therein granted or purported to be granted to certain organizations creates a serious discrimination against us both in our capacity as tax payers and in our pursuit of a livelihood.

"It is submitted:

(a) That to the extent that the persons or organizations enumerated under section 4 of the said War Income Tax Act escape taxation, the remaining citizens of Canada have been called upon to contribute in excess of what they otherwise would have had to contribute had there been no exemptions granted under the Act.

"We make no point with respect to some of the persons and organizations exempted but we do respectfully draw the Commission's attention to subsection 4G in particular.



"(b) That it is conceded that our individual tax burden is higher than it otherwise would be if there were no exemptions, we would further like to point out that our ability to pay our present tax burden is circumscribed by the fact that the said section 4G purports to exclude, and the practice of the taxing officer is such that it does in fact exclude from assessment a large volume of income of the competitors of our principals, the joint stock insurers, and that to the extent that our principals are discriminated against in competing for business we, the agents of those principals, do likewise suffer in our search for a livelihood.

"If it is true to say that this discrimination in taxation between competitors, that is, joint stock insurers and mutual insurers, amounts to a subsidy by means of tax amelioration of mutual and reciprocal insurers, those insurers (i.e. the mutual and reciprocal) and their agents are better enabled to compete in the insurance market than we, the agents and representatives of joint stock insurers.

"In conclusion we submit that the present high level of taxation is in large measure due to costs arising out of the war and that the war is being fought by the citizens of Canada in the interests of all citizens of Canada, and that the tax burden of the war effort should therefore be equally borne by all citizens of Canada, but that under the conditions as they exist to-day some of the citizens of Canada are paying the cost for a war that is being waged in the interests of all."

. . . . .

MR. PARKER: There are no questions I wish to ask.

THE CHAIRMAN: No questions of fact are involved. It is merely an argument submitted on behalf of your association?

WITNESS: Yes.





BY MR. HAM:

Q. Mr. Herring, with respect to your own agency, is it an individual agency or a partnership or a corporation?

A. My own, the one which I operate, is a corporation. Most of us are incorporated in Edmonton.

MR. WINSPEAR: Mr. Arnason asked me a question, Mr. Chairman, which I would like to reply to if I may.

THE CHAIRMAN: What brief do you relate this to?

MR. WINSPEAR: It was in connection with the Independent Millers. Mr. Arnason asked me whether I had read the debate in the House of Commons respecting the amendment to section 4(p) in 1930. May I say that I have now read that debate and it does not change my views.

. . . . .

U.F.A. Coronation Constituency Co-Operative  
Association Limited

MR. MILVAIN: At the time I filed this brief I did not have copies. I will ask Mr. C. A. Fawcett to present the brief.

Mr. C.A. FAWCETT,  
Manager of the U.F.A. Coronation  
Constituency Cooperative Associa-  
tion Limited,  
having been duly sworn, testified  
as follows:

BY MR. PARKER:

Q. You are the manager of this company? A. Yes.

Q. How long have you been manager? A. Since its inception.

Q. When was that? A. 1930.

Q. Prior to that were you engaged in any way in this kind of work? A. Yes. As pointed out in the brief, I was secretary of the local at the time it was formed.



Q. You carry on farming operations yourself?

A. I am farming.

Q. You may proceed to read the brief.

WITNESS (reading):

Brief Submitted by U.F.A. Coronation Constituency  
Cooperative Association Limited.

(To this brief are attached:  
Statements of Operations and Statements of  
Assets and Liabilities, years 1931 to 1944.  
Articles of Association and Memorandum of  
Association.)

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### HISTORY

"The history of this Association finds its birth place in the district surrounding the Town of Consort situate some thirty to forty miles east of Coronation. The district in which Consort is located was first settled in 1908 or 1909, four years previous to the construction of a railway through that area. The nearest shipping point was at Castor about sixty-five miles away. The Consort area became heavily settled, all available homestead land being taken up.

"By 1911 there was a considerable acreage in grain and a demand for twine arose. The Consort Local of the U.F.A. was formed in June of that year and in approximately mid July, using Eaton's catalogue as a guide (it was our only available one), we found that we were paying a margin of four cents per pound to our local dealer. We felt that this was altogether too high and sent an order to Eaton's for three thousand pounds of twine. The shipment of course came to Castor and it had to be hauled by the old-fashioned horse and wagon method from Castor to Consort. After paying haulage a clear gain of three cents per pound was realized by making this bulk purchase.

"In 1912 Railway service was established and we continued to buy farm supplies in bulk ordering through the





U.F.A. Central office. As the demand arose we widened our purchases to other commodities such as fence posts, lumber, fencing materials and the like. As an example of how this method of buying expanded it is noted that the Local handled in 1915 seven cars of lumber, three cars of fence posts, one car of barbed wire and a good supply of twine. Business for that year totalled \$10,000. This ordering through the Central U.F.A. continued until 1917 at which time the United Grain Growers Limited built an elevator at Consort and from that time to 1925 we bought through their supplies department. In 1925 the United Grain Growers sold their elevator to the Alberta Wheat Pool, but as the Pool did not conduct a supplies department we continued to buy through the Grain Growers except for coal which the Pool did handle.

"In 1921 the locals of the Coronation Constituency area formed an association for educational purposes. This was called the Coronation U.F.A. Constituency Association. Many of the locals had been carrying on business similar to that of the Consort Local and the need was felt to consolidate in order to get the benefit of bulk buying.

"In 1929 in order to consolidate buying power the Constituency Association Board called a meeting of the representatives of all Locals which was attended by the then supervisor of Cooperative Activities for the Province of Alberta and the following plan was worked out.

"An Association called the U.F.A. Coronation Constituency Cooperative Association Limited was formed under the Cooperative Associations Act. Shares were to be \$25 each but it was only necessary to call \$5 per share at that time and no further calls have ever been made. The share holders were to be the U.F.A. Locals. Each local was to appoint a trustee who would sign a declaration of trust to his local to



conduct business for them and report to them as required. Twenty-five shareholders were present at the first meeting and pursuant to the Articles of Association which were set up to suit their requirements they appointed a board of seven directors who proceeded to carry on the business of the Association. After the incorporation eight other locals joined, making a total of thirty-three members subscribing a total capital of \$165.

"During the severe depression years the district surrounding Coronation and Consort, being in the semi arid area of the province suffered a population loss. Many of the original thirty-one locals changed and reorganized so that there are now only seventeen of the originals left.

#### Method of Business and Development

"At the present time all purchases are made through the U.F.A. Central Cooperative Association Limited. The goods handled are twine, feeds, coal, salt, fencing material, gasoline and oil and similar agricultural supplies.

"The only properties held by the Association are four coal sheds and two oil stations.

"To illustrate savings made we give this example. Before this organization commenced handling coal local coal dealers charged \$1 to \$1.50 to unload a ton of coal. This Association has reduced unloading charges to twenty-five cents so saving from seventy-five cents to \$1.25 on each ton of coal in that simple and direct manner.

"Annual surpluses are paid out in cash except a small reserve. The Association's balance sheet and operating account for the fiscal year ending June 30, 1944 is submitted herewith.



General

"The success of this Association encouraged other constituency Associations to follow our lead and at one time there were as many as twenty or more organizations operating on our plan which came to be popularly called "The Coronation Plan". However with the depression years and some poor management by the end of 1939 all but three such Associations had gone out of business. The three survivors are The Acadia Association, The Pembina Association and this Association. It should probably be noted that of some of the seventeen or more Associations which appear to have gone out of business it is true to say that a few have been set up in the form of Cooperative stores incorporated under The Cooperative Associations Act.

"It should be noted that a very important development from the so-called Coronation plan was the insistence made at the U.F.A. convention in 1931 for a medium through which Associations organized on the Coronation Plan might operate. As a result of that insistence the U.F.A. Central Cooperative Association Limited was set up.

Conclusion

"Proving that there was a need for the consolidation of buying power and a saving to be made we are attaching hereto a statement showing a volume of sales for the years 1930 to 1944 inclusive and showing also surpluses earned and dividends paid in those years.

"We feel that the Association gives a real service to its members in saving them money on the purchase of necessary supplies.

"Dated at Coronation, Alberta, this 23rd day of January, A.D. 1945.

Respectfully submitted,  
U.F.A. Coronation Constituency  
Cooperative Association Limited  
Per: C.A.Fawcett, Manager."





U.F.A. Coronation Constituency  
Cooperative Association Limited  
Coronation, Alberta

Balance Sheet as at 30th June, 1943

A s s e t s

Current

Cash on hand	\$ 110.95	
Royal Bank of Canada	1,129.33	
Flour on hand - estimated	35.00	
Accounts Receivable - Agents	<u>2,593.17</u>	\$3,868.45

Investment

Alberta Cooperative Wholesale Association	
- Share	100.00

Fixed

Building	\$ 623.33		
<u>Less</u> Reserve for De-			
preciation	31.17	592.16	
Office Equipment	51.00		
<u>Less</u> Reserve for			
Depreciation	<u>15.30</u>	35.70	
Oil Station Equipment	1,513.24		
<u>Less</u> reserve for de-			
preciation	<u>305.68</u>	1,207.56	
Warehouse and Shed			
properties	820.05		
<u>Less</u> reserve for de-			
preciation	<u>41.00</u>	<u>779.05</u>	<u>2,614.47</u>
			\$ <u><u>6,582.92</u></u>

L i a b i l i t i e s

Accounts payable	751.92	
Manager's Commission	396.28	
Oil Station Liens	682.36	
Livestock Association Trust	50.81	
Paid-up Capital	165.00	
Accumulated Surplus		
. Balance, 30th June, 1942	\$4,119.89	
<u>Less</u> Sundry Adjustments	<u>49.34</u>	
	4,070.55	
<u>Add</u> surplus for year	<u>466.00</u>	
Balance, 30th June, 1943	<u>4,536.55</u>	<u>\$6,582.92</u>

Calgary, Alberta, 16th August, 1943  
Audited and Certified Correct, Harvey, Morrison & Co.  
Chartered Accountants



Statement of Commodity Trading and  
Operations for the Year ended 30th June  
1943.

	Sales	Cost of goods	Gross Margins
Coal	\$13,166.56	\$12,620.73	\$ 545.83
Fish	104.48	93.13	11.35
Mill Products	423.11	412.02	11.09
Potatoes	560.89	541.59	19.30
Salt	451.50	465.80	14.30
Twine	9,612.63	9,008.71	603.92
Maple Leaf Goods	28,297.82	28,297.82	-
U.F.A. Sundry goods	2,947.53	2,947.53	-
Wood	2,436.59	2,099.53	337.06
	<u>\$58,001.11</u>	<u>\$56,486.86</u>	<u>\$1,514.25</u>

Revenue

Gross Margins, as above		
Commissions - HyGrade Coal	1,514.25	
- U.F.A. Central	487.49	
Cooperative		
Association Limited	<u>1,914.05</u>	3,915.79

Expenditures

Manager - Commission	847.33	
Trucking	668.20	
Handling Commodities	244.26	
General Expense	232.56	
Discounts	106.65	
Licenses, Taxes, etc.	71.75	
Audit Bureau - 1941/1942	40.00	
Rentals	42.00	
Bad Debt	24.49	
Board Meetings	20.85	
Supplies	3.95	
Depreciation - Buildings	72.17	
Equipment	<u>156.42</u>	228.59
		<u>2,530.63</u>
		\$ 1,385.16
Dividends Paid or credited	1,219.16	
<u>Less</u> Reserve for Dividends	<u>300.00</u>	<u>919.16</u>
<u>Surplus for Year</u>		<u>\$ 466.00</u>

. . . . .





	Dividends Paid	Surplus for yr.	Deficit for yr.	Mgr. Comm.	Total Sales	Coal	Petro- leum Goods
1930		48.52				9,085.99	
1931		684.09		412.00	41,199.06		1,758.28
1932	697.17		17.55	752.29	37,614.67	6,755.34	2,607.12
1933	1,920.10	264.20		742.50	37,125.00	5,234.25	11,201.10
1934	963.89	850.26		794.75	39,737.75	13,864.48	14,461.05
1935	989.15	52.59		419.42	20,971.30	6,153.46	6,718.09
1936	1,243.04	11.49		538.48	26,923.82	11,138.34	6,104.10
1937	966.74	111.60		546.90	27,345.44	11,638.86	11,142.43
1938	694.68	312.04		639.86	31,993.12	11,253.79	14,280.87
1939	899.54	690.64		896.02	44,801.02	12,614.64	20,227.19
1940	1,148.17	521.04		802.60	40,130.65	10,411.61	19,635.60
1941	1,530.42	232.80		807.67	53,728.69	13,206.11	26,689.87
1942	734.55	684.76		635.94	47,369.98	10,852.13	27,916.98
1943	919.16	466.00		847.33	58,001.11	13,166.56	28,297.82
1944	964.80	994.75		809.51	60,695.94	13,413.72	38,276.97

BY MR. MILVAIN:

Q. How does your association get revenue? Does it buy and sell, or how does it operate?

A. In the statement it will be found that we have \$165 paid up capital, and we have never borrowed. That is the only capital we had to work with, and I suppose you may be a little



curious to know how we could carry on. Well, we had what people who had goods to sell wanted; we had purchasing power. We had the purchasing power and the desire to organize and we had no trouble making contacts in the case of twine, coal and petroleum products. The men who had these products to sell visited us in our territory and proposed plans whereby they could put these goods in our hands, and they would be their goods until we sold them.

Q. They were left in your hands on consignment until you sold them? A. Yes.

THE CHAIRMAN: What do your fixed assets consist of?

WITNESS: It is set out in the statement -- buildings, about \$2,600.

THE CHAIRMAN: What does that consist of?

WITNESS: Two oil stations and four coal sheds.

THE CHAIRMAN: Do you maintain an office?

WITNESS: My office is in my own dwelling. There are no fixed charges on that account.

BY MR. MILVAIN:

Q. What is the warehouse? A. It is part of the equipment of the oil station.

Q. Have you any comments to make on the statement annexed to your brief? A. I would point out that while we have nothing but paid up capital of \$165, yet through the years we have paid out \$13,671 in dividends and that gives an accumulated surplus of \$5,530 as shown in the statement.

BY MR. PARKER:

Q. Just on that statement, the gross value of the goods supplied -- the second item -- the cost of goods, and the spread; I suppose that is what we have been calling savings or surplus? A. Yes. It would be our discount agreement with the organization.



Q. Have you any agreements with your members under which you will pay back the spread, or is that set forth?

A. That is taken care of at the annual meeting of shareholders. We get financial statements at the annual meeting held a month later and they decide what to do with the surplus.

Q. You have no formal contract when the member joins up stipulating how much he gets back. Who decides that?

A. The shareholders at the annual convention.

THE CHAIRMAN: Do you deal only with members?

WITNESS: In one case we deal with a large school division. We sell coal direct to them.

THE CHAIRMAN: And this spread has been paid out from year to year?

WITNESS: Yes.

BY MR. PARKER:

Q. And you have a very small surplus left over?

A. Yes.

Q. You pay out your spread, leaving a very narrow surplus?

A. In case they want to acquire a little property, the shareholders direct me to give a little less dividend that year.

Q. There are not outstanding now any certificates to shareholders indicating that they have interest in that surplus?

A. No; we haven't issued certificates.

Q. These properties that you have acquired have been acquired and paid for by using a portion of the spread rather than paying it back? A. Yes.

Q. There is one item that is not clear to me; you might explain it. It speaks here of additional moneys, discounts, dividends. Does that mean additional receipts, in addition to the straight sales? What source of revenue have you apart from sales?

A. There are three sources. One is contact with the coal mine direct. With petroleum products we have





a discount and that is handled through a working arrangement. They give us a statement of the goods sold and what are termed dividends on those goods.

Q. These little gains that you make are simply thrown into the pot and your member customers get the benefit of that?  
A. Yes; all the facilities are our own.

Q. What are the grants and dividends? What grants do you get?  
A. That is in connection with twine. At the end of the year when it is ascertained what has been earned we get a grant.

Q. Who pays the grant?  
A. There is an arrangement with United Grain Growers.

Q. It is a receipt from United Grain Growers, a bonus for having done so much business with them?  
A. Yes.

Q. That is set out there?  
A. When the year is good and we have a large crop we use more twine.

Q. It runs to \$660 odd. It has been there four years?  
A. Yes. That might be twine or some other commodity.

Q. It is money received from United Grain Growers as a special discount?  
A. Yes, that is correct; it is an earning.

Q. Which in turn is added to the spread on the straight sales and the whole thing is paid back to the shareholders in proportion to the amount of business they do?  
A. Yes.

Q. Have you victory bonds? -- What dividends have you?  
A. Not in 1932.

Q. At any time? Have you now?  
A. I would have to look up the year's operating statement to get particulars of that.

Q. I thought you could remember.  
A. That would be from the previous year from twine handled. We operated through the Alberta Co-operative Wholesale and sold seven cars of twine as our first operation and the dividend on that would



be around \$1,100. It was received in the year following.

Q. What is that next item, "adjusted spread"? What does that mean? A. That is the total.

Q. These discounts seem rather high. I don't quite understand that. Take the year 1933. You show a revenue of \$1,306 under the designation "discounts". Just what does that mean? A. \$1,306.29 would be discounts received.

Q. Received from whom? A. In the case of coal it would be received from the Etna Coal Mine. In the case of oil the amount would be from the Great West distributors. Then there are sundries, \$772, and the total is \$1,306.

Q. Other years are similar to that? A. Yes.

Q. The association buys coal at a stipulated price? A. Yes.

Q. And pays for it? A. Yes.

Q. And later on they voluntarily give you a discount? A. It is an agreed discount. We get it periodically every six months.

Q. You say it is an agreed discount. They quote you a certain price? A. It is a wholesale mine price with an agreement for discount.

Q. And you show it in your accounts as revenue received by the association? A. It is noted as discount received.

Q. I understand, I think. A. We have another way of keeping track of spreads. In this statement we have apples, where we sold \$2,250 worth of apples and we set our own spread, and that is called gross margin.

Q. Look at the last page of the accounts attached to the brief proper, the last but one, in the middle of the page. You see "revenue for the year 1943". There you see "gross margins as above commissions Hi-Grade." Are those the same





things as you call commissions?

A. This is our commission on petroleum products and sundry goods we purchased through the store such as hardware, and there is a retail spread. This is gross margin revenue U.F.A. Central. That would be our margin on petroleum products and sundry goods operated through the store.

Q. The members are made up of local associations, not individuals? A. Yes.

Q. And you purchase on behalf of the local associations and this association gets the commission?

A. No. The locals have their purchasing agent. We might have four or five locals around a point and only one agent. If they want things through the store they order through the agent and I get copies of the invoices as they come back.

Q. What is a local? A. It is a community of farmers who join a local of the U.F.A.

Q. Do they join individually? A. They join individually.

Q. Which is the local? A. The local is the whole group.

Q. In some given community? A. Yes. They are tied in with our set-up by a declaration. The Act of incorporation deals only with individuals and we have to have a declaration of trust so that they tie themselves in with us. We can get copies of this declaration forwarded to you.

Q. The Coronation Association is incorporated? A. Yes.

Q. And your members are the various locals? A. Yes, tied in by declaration of trust. It is a little hard to understand, but when you get the whole foundation it is clear.

BY MR. ELLIOTT:

Q. What price-policy do you follow in the initial charge? Do you charge about the going price or something less or more? A. We had quite a little experience in paying what we thought was an exorbitant spread on both coal and twine and it is



agreed now, and is satisfactory to all selling twine in the district, that seventy-five cents of a spread is sufficient. It used to be a dollar and a quarter or a dollar and a half. On coal we pay a service charge of our own, giving our agent twenty-five cents a ton. In case we put it into our sheds there is an additional charge for putting it there. With petroleum products, standard rates are paid.

Q. On page three of your brief you say: "However, with the depression years and some poor management, by the end of 1939, all but three such associations had gone out of business." Do you know the particular sort of poor management, or the particular practices that were contemplated when this was written? A. We hold conferences of these associations each year and about the time these twenty were in operation we were meeting in Edmonton and we got reports from them, but they seemed to dwindle away. I did not get a reason for it and we could only assume that there must have been poor management or lack of management.

Q. You have nothing more definite than that in mind?

A. No.

BY MR. VAUGHAN:

Q. I understood from your answer to Professor Elliott that your price is not the prevailing price but something much lower. A. It might be in the case of coal, but with twine we have agreed with the agents all through the territory to sell at a seventy-five cent spread. With petroleum products we charge the standard price and pay the agents the regular commission.

Q. Coal is \$13,000 out of \$60,000? A. Yes.

Q. The benefit to your members is really more than what this statement shows? A. Not only to the members, because we



have forced the spread down so that everyone gets an advantage.

Q. The return will be even greater than is shown here. I notice there are two big items, coal and petroleum. These two together amount to \$51,000 out of \$60,000. Is that right?

A. In that period, in addition to what we have on our balance sheet, we handled \$29,684 worth of flour and \$16.947 worth of apples.

Q. That would total a good deal more than the sales shown here? A. The totals are the same.

Q. Coal is \$13,000 and petroleum \$38,000, which is \$51,000, and that leaves only \$9,000 to account for the balance of sales. A. What sheet are you dealing with?

Q. The last sheet of the brief. Apart from coal and petroleum there is only \$9,000. A. We have coal \$13,413.72 and petroleum \$38,276.97.

Q. And that is a total of \$51,000, leaving only \$9,000 to account for sales outside these two items. I was wondering whether that could be correct.

A. I have the auditors' report for that year.

Q. All we want to make sure is that this is correct, that the two items making up the biggest part of the business are coal and petroleum. In your statement of assets and liabilities there is one share in the cooperative wholesale association. Do you do much of your business in the association?

A. Very little.

Q. What kind of return does that association make?

A. On what business we have done I have a certificate. I forget what it is.

Q. What would be the percentage of rebate?

A. I could not give particulars without the certificate. It is only a small amount. I could probably get it for you.

BY MR. NADEAU:

Q. Do you deal on a cash basis with your members? A. Yes.





Q. What is the population of the area served by your association, approximately? A. That would be hard to determine. It covers a territory ninety miles long and thirty-five miles wide.

BY MR. ARNASON:

Q. With reference to the associations which went out of business in the past, I notice in your reply to Professor Elliott you said it was difficult to give reasons why they had gone out of business. Would you say that possibly one reason for the decline of associations is that they may have sold on credit? A. I would say that was so from my knowledge of two or three who did that and got into trouble.

Q. Would the movement of farmers out of the district served by these associations have been a factor as well?

A. The area that lost population was that portion that was subject to drought. The population went into areas where the associations were carrying on and they increased and we decreased. When I say "we" I mean the two associations which operate entirely in the drought area of the province.

Q. I was wondering whether some of the associations that went out of business had been in the drought area.

A. No. There was Stettler and Lacombe and Wetaskiwin, the better parts of the province. It may have been our conditions that brought us a little closer together.

. . . . .

MR. PARKER: The next brief is from the Andrew Co-operative Association Limited.

MR. MILVAIN: I made a mistake, Mr. Chairman, in representing this brief as having originated from the U.F.A. organization. For that reason I desire to substitute a new page one.



WILLIAM A. ROMINIUK,  
Manager of the Andrew Co-  
operative Association Ltd.  
having been duly sworn,  
testified as follows:

BY MR. MILVAIN:

Q. You are manager of the Andrew Cooperative store?

A. Yes.

Q. How long have you managed the store? A. Ever since it started. This is the fifth year.

Q. You have a brief to submit on behalf of that organization? A. Yes.

Q. You are familiar with the facts set out in the brief? A. Yes.

Q. And they are, to your knowledge, as represented? A. Yes.

Q. Will you read it.

WITNESS (reads):

Brief Submitted by Andrew Cooperative  
Association Limited

History

"This Association is engaged in the operation of a general store at Andrew, Alberta. The village of Andrew is situated in a district in which about ninety per cent of the population are Ukrainian in origin, ten per cent are Roumanian, Russian, German, English and Polish. The Ukrainian people in this district are strong supporters of the cooperative movement.

"Until the late thirties the standard of living for the farmers in this district was very low with quite a few farmers unable to support themselves. Assistance had to be given in some cases by the municipalities. A number of farmers in the district got together to discuss what they could do to improve conditions and it was decided to open up a cooperative store as soon as conditions permitted. In 1940 this Association





was incorporated under The Co-Operative Association Act and commenced business.

Organization and Methods of Business

"The memorandum of association is in the usual form under the Act giving the Association power to operate a general store. The standard by-laws prescribed by the Act govern the Association.

"The capital of the Association is made up of an unlimited number of shares of a par value of \$25 each. Customers sign an application for a share which they pay for by instalments and now many of the shares have been paid for in full. No interest is paid on capital invested. The application for incorporation was signed by eight farmers and two grain buyers. The present membership numbers 417, about ninety-five per cent of whom are farmers and the remainder residents of the town.

"After incorporation the Association commenced operations by purchasing a small grocery business in the town of Andrew for \$550.00 representing the stock on hand and took over a lease on the premises. For three years the Association carried on business in these premises but in 1944 it purchased the business of the Andrew Mercantile Company from one Joe Hoffman, paying the sum of \$22,000 cash for it. The purchase price was raised in the following manner.

- (1) From the sale of stock
- (2) By deferred dividends, and
- (3) By loan capital subscribed by the members.

In carrying on its business the Association adapts the principle of pricing its inventories at prevailing town prices. At the present time the stock on hand usually runs to about \$30,000.

"In 1940 the full operating surplus was distributed in cash. In 1941 the distribution was half cash and half in



three year participation certificates. In 1942 the same distribution was made. In 1943 only deferred certificates were issued, half fixed on a three year revolving fund basis, the remainder deferred for such a period as the directors might deem advisable.

"The fiscal year of the Association ends on the 31st of December in each year. Attached hereto is a copy of the balance sheet and annual operational statement for the fiscal year ending December 31, 1943. It will be observed that the balance sheet show the following sources of finance.

"Members loans - \$3199.56

Members share capital - \$5545.51

Members reserve certificates,  
representing deferred dividends - \$5531.87

"It also shows a total operational surplus reserve of \$9035.03 which is not apportioned. During the same fiscal year it will be noted that total sales amounted to over \$84,000.

#### General

"This association has been authorized to speak on behalf of thirty-five cooperative retail stores operating throughout the province of Alberta. From the information supplied by the thirty-five stores the following summarized facts may be given.

(a) Thirty-four incorporated under the Cooperative Associations Act, one joint stock company.

(b) Twelve incorporated after 1940, eighteen incorporated between 1930 and 1940, three incorporated between 1920 and 1930, two incorporated before 1920.

(c) All are on a share capital basis, thirteen with less than \$2,000 subscribed; eight with less than \$5,000 subscribed, twelve with over \$5,000 subscribed; two not



stated.

(d) Practically all stores allocate patronage dividends annually, either in cash or partly in cash and partly deferred dividends, and in no case is interest paid on deferred dividends.

(e) Most of the stores file income tax statements and only six have ever paid income tax.

Conclusion

"The Association feels that it is performing a useful service to its members in making available to them a wider range of stock through consolidation of their purchasing power. At the same time it has saved them approximately seven per cent on their purchases through returning to them dividends.

"Dated at Andrew, Alberta, this 22nd day of January, A.D. 1945.

Respectfully submitted,  
Andrew Cooperative Association Limited,  
Per: William Rominiuk,  
Manager."

. . . . .

BY MR. MILVAIN:

Q. What would be the population of Andrew?

A. Approximately four hundred.

Q. And the surrounding district it serves would have how many? A. This is a rough estimate, but I believe it is between three and four thousand.

Q. You have mentioned that there are a number of different nationalities represented in your community. How do they get along? A. We get along very well because we have in our co-operative movement people of every nationality, and even in the directorate. They are friendly to one another.

Q. Have you yourself lived in the community most of your





life? A. Yes; I was born in that community.

Q. Have they always got along in the same way or have you noticed any change? A. There has been a great change since we had the store. It sort of ties everyone up. They come to get goods and they discuss their problems and there is greater friendship between them than in the past. In the very close surroundings there they get along nicely but they don't know the farmers further away. Here they are brought up together and so they are all the same.

Q. I understand that the majority of the people in the district are Ukrainian. A. Yes.

Q. Am I right in the belief that the Ukrainian language is spoken largely at meetings of the association?

A. Yes, mostly; but we have others who don't understand Ukrainian and we ask the opinion of the meeting what language they prefer and so we usually use the two languages, English and Ukrainian.

Q. And are the people of other language groups satisfied with that? A. Yes, because most of them speak Ukrainian.

Q. How many stores were there operating in Andrew before the cooperative started? A. I would say close to twenty.

Q. What sort of service did the people get? A. I would say the service could not be very good because there were so many that the range of goods had to be small. There was an awful lot of small stores in business trying to make a few dollars.

Q. At the outset you bought stock from somebody for \$500 and later bought a store? A. Yes.

Q. Operated by a man named Hoffman? A. Yes.

Q. You paid \$22,000 for it? A. Yes.

Q. Was it a big business? A. Yes, the Andrew Mercantile was one of the biggest retail businesses, dry goods, in town.



Q. Have many of the other stores gone out of business since you started? A. Yes, about five.

Q. How did Hoffman come to sell out to you? A. He told me his health was not very good. He has been in business since the railway went there.

Q. How long? A. The railway went there in 1926 or 1928 and he was there. He had it for sale with one of the real estate people in town. We wanted to enlarge our premises and we thought it would be wise to take his business.

Q. What has been the change if any in the type of goods available for the people in the Andrew district?

A. Mostly our membership want a wide range of goods.

Q. Have you noticed any difference in the demands of the people? A. Yes.

Q. Just what has been the business? A. In dry goods, in every town, the stores can't keep a very large range of goods. It takes a lot of money and people have to go to the cities to get the goods they can't get in a smaller town, and so the pressure is to see if a wider range of goods cannot be got.

Q. That is, the pressure your members bring to bear on you? A. Yes.

BY MR. PARKER:

Q. I am interested to know what happened to the other twenty stores? Four or five have gone out of business?

A. Yes.

Q. Forced out by your taking over the business?

A. I would not say they were forced out by us. The first year we did a very small business and it would have come about whether we had been there or not. There were too many and we were doing very little business when some of them dropped out.





Q. The big fellow you bought out had been there for some years? A. Yes.

Q. Doing well? A. Yes; he said he had been doing a good business and we know he had.

Q. It was offered for sale and you bought it?  
A. Yes.

Q. Why did you want to enlarge your premises; why did you want to branch out and get that business?

A. We were trying to run the place we were in and it was a small place when we started. We paid \$550 for a small grocery store, and for the number of members we have now the place is too small, and instead of building somewhere else we thought it was wise to buy that business.

Q. Do you sell goods to anyone who happens to be driving through the country -- non-members? A. We do business only with members. If non-members come and want to buy cigarettes we sell them.

Q. Are there not many people who come in who are not members? A. Not more than from one to two per cent because they have their own places to go to.

Q. What do you mean? A. This is a cooperative store and the members come in because it is their own business.

Q. Do you sell at the same prices as other stores?  
A. Yes.

Q. And the savings are paid back? A. Allocated back every year.

Q. And you still carry a considerable surplus. What will you do with that? A. We have no surplus as far as the association is concerned.

Q. The association shows a surplus in the statement. Whose surplus is it? A. The members', and the year after we see how much in the way of overcharges we have, and if it



shows a surplus we hold the annual meeting after the statement is made, usually in the beginning of February, and put it up to them what they want to do with the overcharges in the year. In 1940 the wish of the majority of the members was to pay it back in cash.

Q. Were there some who objected to that? A. Yes.

Q. Some wanted to hold it? A. Some wanted to leave it in reserve.

Q. Some wanted it partly in reserve and partly paid out? A. Yes.

Q. And some others wanted it all paid out? A. The majority did.

Q. There were many that wanted that? A. Yes, I was one of the members that wanted to hold it. I felt that we needed to increase our business and we had to have buying power, because you have to have money to buy wholesale. I felt that the capital we had at the time was small and we had to have money somewhere, and so we have loans. If we are short of money we have to go to the members.

Q. You are getting away from the question I was asking you. There seems to be some confusion here. At the meeting when the question came up as to how much was to be paid, there were three types of people there: some who did not want to pay any, some who wanted to keep it on reserve -- A. There were some who wanted it paid in cash.

Q. And there were some who wanted all the surplus paid in cash? A. Yes.

Q. And there were some who only wanted part of it paid out and the rest kept in reserve? A. Yes.

Q. There were others who wanted it all paid out. Is that correct? A. No. There were two types. The majority wanted



it all paid in cash and the minority figured they should leave it in reserve for three years. It is all allocated, but they felt it should be left for three years.

Q. The majority wanted it paid in cash. Why was it not paid out? A. It was paid out.

Q. The first year? A. Yes.

Q. Every man is bound to do what the majority votes?  
A. Yes.

Q. On page two of the operational statement there is an item called "gross handling margin". Is that a new name for the same thing that we have so often heard about?

A. What is that?

Q. "Gross handling margin"? A. After we buy goods from the wholesale that is one cost, and after it is sold, all the surplus on these articles is in this gross margin.

Q. And it is out of that gross margin that you deduct expenses? A. Yes.

Q. And after you have deducted expenses what is left is the money that you pay out? A. Overcharges.

Q. You have not bought Victory bonds very extensively. As regards these Alberta Cooperative Wholesale Association reserve certificates, how did you get hold of that asset?

A. There is a certain amount that is bought from them. I could not tell you the details.

Q. You have something in their association, but instead of getting their money you get their certificate? A. Yes.

BY MR. VAUGHAN:

Q. You said that the price charged your members was the same price as prevailed in the town? A. Yes.

Q. With reference to the wholesale price paid, is that wholesale price charged everybody by the wholesale? You buy from the wholesale? A. Yes.





Q. How does the wholesale determine its price?

Is there a catalogue? A. It would be hard to say whether they charge us the same as a private business.

Q. What is the basis on which the return is made from the wholesale to you? A. When the invoices come in from the wholesale they have a certain price charged for goods and we have a mark-up. It is hard to keep every article the same.

Q. Is there any rebate from the wholesale, just as you make a rebate to your members? A. To my knowledge we have none.

Q. When you took over the Andrew Mercantile Company you took over their books? A. Yes, we would to a certain extent.

Q. And you know what was in their books? A. I don't know whether we got the books. It was just the stock and his price.

Q. That is, the profit and loss statement for the year? A. We would not have that.

Q. Do you know what taxes were paid by that company? A. Local or income tax?

Q. Income tax. A. No, I would not have that.

Q. It does not appear in any of the books?

A. No.

Q. You never heard of it? A. No.

Q. You say in your brief that there are six other stores that pay income tax. Do you know why they pay and the others do not? A. Why stores pay income tax?

Q. You say that most of the stores file statements and only six pay. Why do those six pay? A. Instead of answering I would wish the solicitor to answer. They prepared a form of questionnaire because it was hard to get them all in and that is the information that was got.



Q. You do not know why they did pay? A. They must have done non-member business.

Q. But you do not know exactly why? A. No.

BY MR. ELLIOTT:

Q. There are still some ten or fifteen stores?

A. About fifteen.

Q. Are they general stores or are there confectioners, bakeries and so on? A. Everything -- confectionery, groceries, groceteria. Each one goes into general business.

Q. Are some of them incorporated companies and some private individuals? A. I think some are incorporated, like the bigger hardware stores. I could not answer that.

. . . . .

MR. PARKER: We will now take up the brief submitted by the Edmonton District Farmers' Cooperative Limited.

MR. MILVAIN: Before Mr. Love presents this brief I should point out to the Commission that there are no copies of memorandum or by-laws filed in connection with this association. We can have prepared a copy of the memorandum, but perhaps you will be satisfied with my statement to the effect that this association is authorized to carry on the type of business it is doing; and in so far as the articles are concerned, they are the standard articles that have been prescribed by the Act. I understand that the Commission has already been supplied with a copy of these standard articles.

THE CHAIRMAN: That statement will cover it, I think.

J. RUSSELL LOVE  
Manager of the Edmonton  
District Farmers' Co-  
operatives Limited,  
having been duly sworn,  
testified as follows:

BY MR. MILVAIN:

Q. You are manager of the Edmonton District Farmers'





Cooperatives Limited? A. Yes.

Q. How long have you held that position?

A. Since the inception of the association.

Q. Had you had any experience operating stores before?

A. Yes.

Q. You have a brief which you wish to present to the Commission? A. Yes.

Q. And the statements of fact contained therein are true to your knowledge? A. Yes.

Q. Some of them are perhaps statements of fact the nature of which came to you from someone else and they are true to the best of your knowledge and belief? A. Yes.

Q. Will you read the brief?

WITNESS (Reading):

Brief submitted by Edmonton District  
Farmers' Cooperative Limited

"1. Why the Association was Incorporated

"During the depression years of the thirties, U.F.A. locals in the Edmonton district slowly came to the realization that governments alone could not save the farmers from economic disaster. They were told, and rightly so, that they themselves had to assume their share of the responsibility for lifting agriculture to a higher economic level. That they themselves must do their part to reduce costs of farm operations as well as costs involved in the marketing of farm products.

"Towards this end, farmers were urged to turn to cooperative methods, both in the marketing of their farm products and in the purchase of their farm supplies. With this advice and after several months of careful consideration the farmers in the Edmonton district incorporated under the Cooperative Associations Act of Alberta, the Edmonton District



Farmers' Cooperative Limited, on May 13, 1936.

## 2. Brief History of the Organization

"For the first two years the organization acted as a bargaining association for the farmers in the Edmonton district. It also acted as local representative for the U.F.A. Central Cooperative Limited in the distribution of petroleum products, coal and binder twine. It bargained on behalf of its members for the best possible arrangements for securing feeds and other farm supplies. It had very little overhead expenses during this period and devoted most of its effort to building up the membership and the capital of the association. The surpluses accumulating at the end of each year were paid out in the form of cash patronage dividends to the members.

"By March 1938, sufficient capital had been raised to warrant the opening of a small warehouse in Edmonton to render greater service to the membership. With two employees the warehouse was opened and stocked with farm supplies, chiefly various types of livestock and poultry feeds. The Association had not been in business long before the incessant demand of the membership forced it to put in a modest stock of consumer goods, such as groceries, dry goods, and hardware. In the summer of 1938, the association obtained a feed mixer and proceeded to mix its own supplemental feeds based on formulae obtained from reliable authorities.

"By the end of 1939 it became necessary to secure larger premises. The Association purchased a large building from the city of Edmonton early in 1940 on terms extending over a ten year period. This building is located by the market square in the centre of the city and is the present home of the Association.

## 3. Analysis of Capital Structure

"To make the necessary payment to the city and to improve



the new premises, members were asked to invest in a special building fund, by purchasing preferred shares bearing four per cent interest; \$4,161 has been invested in this fund. Loan capital to the extent of over \$8,000 has been raised to finance the needs of the Association. Members' loan capital bears four per cent interest and is callable at any time by the member. Banking arrangements have been made to take care of any excessive call on loan capital. Membership shares are issued at the par value of \$1 and bear no interest. Membership share capital at the end of 1943 stood at \$4,164. No interest is paid on deferred dividend certificates. The following analysis sets forth the capital structure of the Association.

Analysis Capital Structure

Period Ending	Member- ship Shares	Deferred Patronage Dividends	Preferred Shares	Member Loans	Total
Mar.31/37	\$ 824.74	--			\$ 824.74
Mar.31/38	1163.08	--			1163.08
Dec.31/38	1851.03	--			1851.08
Dec.31/39	2071.86	341.44			2413.30
Dec.31/40	2821.54	--	2336.27	2050.00	7207.81
Dec.31/41	3325.26	--	3203.85	4750.00	11279.11
Dec.31/42	3709.92	1004.77	3851.23	5950.00	14515.92
Dec.31/43	4164.49	6952.64	4161.22	8238.13	23516.48

"4. Revolving System of Financing

"Under the revolving finance system, deferred dividend certificates are issued to the members annually on a patronage basis, representing dividends retained in revolving capital. No stated date for redemption appears on the certificate. When interest bearing capital and loans have been redeemed





and sufficient capital to meet the needs of the cooperative has been accumulated, the revolving begins. Each year a series of certificates is paid off in the order of issue. Funds retired by the revolving process are replaced by new funds coming in from the annual surpluses of the cooperative.

"Revolving capital provides:

1. Necessary capital in an orderly and equitable manner
2. Ownership on the basis of patronage
3. A plan for retiring members to recover their investment in capital.

#### 5. Operating Principles

"The association is governed by the standard bylaws set forth under the Cooperative Association Act of the Province of Alberta.

- '1. Membership. Membership is open to anyone wishing to join the association irrespective of occupation or any other consideration.
- '2. Ownership The association is owned and controlled by the membership who in annual meeting exercise one vote for each member. A board of nine directors is elected by the members.
- '3. Interest Control. Interest on capital is controlled by the members and is set at four per cent on preferred shares and members' loan capital.

#### 6. Operating Practices

- "1. Sales Policy. Goods are sold to the members and patrons at recognized prevailing retail prices.
- '2. Cash Policy The association operates its business on as nearly a cash basis as is humanly possible. On a turnover of \$223,000 in 1943 the accounts receivable from members at the close of that year stood at \$147.66.
- "3. Sales Record A detailed record is kept of all sales and a summary is made for the inspection of income tax officials which sets forth the business done with members and the business done with non-members. The business done with members has never



been less than eighty-five per cent of the total business. All patrons are requested to sign an application for membership in the Association.

4. Accounting and Auditing. The bookkeeping department is supervised by a chartered accountant and the auditor's report is filed with the Income Tax Department at the close of each year. The Association has never been requested to pay income tax on its business.'

### COMPARATIVE STATEMENT

"The following comparative statement sets forth the growth in membership; volume of business and surpluses.

#### Comparative Statement

<u>Period Ending</u>	<u>Membership</u>	<u>Volume of Business</u>	<u>Surplus</u>
March 31/37	192	Commissions only	484.43
March 31/38	322	" "	2,278.12
Dec. 31/38	436	\$27,989.95	2,691.95
Dec. 31/39	627	44,168.37	3,024.51
Dec. 31/40	872	86,184.70	4,592.80
Dec. 31/41	1086	120,675.56	4,202.41
Dec. 31/42	1211	196,790.04	9,777.59
Dec. 31/43	1340	223,429.68	10,014.23
		A.C.W.A.	3,647.97
Total	1340	\$699,238.30	\$40,714.01

Note: 1943 surplus arrived at by adding \$275.32 loan interest to net trading surplus of \$9,738.91

### 7. Distribution of Surpluses

"The Board of Directors proposal for the allocation of each year's surplus is submitted to the annual meeting for approval or alteration by the members. All allocations are made on the basis of each member's purchases and have no reference to the member's capital investment in the Association.

"The following statement sets forth an analysis of the distribution of surpluses since the association was incorporated.





Analysis Distribution of Surpluses

Period Ending	Total Gross Surplus	Allocation Cash Dividends	Deferred dividends	Interest on loans & Preferred shares	Re-serves	Un-allocated Balance
Mar. 31 1937	484.43	353.11				131.32
Mar. 31 1938	2,278.12	1,705.00				573.12
Dec. 31 1938	2,691.95	2,416.14				275.81
Dec. 31 1939	3,024.51	339.90	341.44		83.68	2,259.49
Dec. 31 1940	4,592.80	3,160.37		133.19	550.69	748.55
Dec. 31 1941	4,202.41	3,306.63		184.81	690.70	20.27
Dec. 31 1942	9,777.59	1,799.75	1,004.77	355.65	3,500.45	4,927.94
Dec. 31 1943	10,014.23	1,319.01	6,952.64	379.34	1,072.87	2,127.37
Add	3,647.97	Equities A.C.W.A.				
Total	40,714.01	14,399.91	8,298.85	1,052.99	5,898.39	11,063.87
1943 Surplus Allocated in 1944						
General			5,687.07			
Special x			5,361.76			
Total	40,714.01	\$14,399.91	\$19,347.68	\$1,052.99	\$5,898.39	\$115.04
Note: x - Special deferred dividends allocated in 1944 were Petroleum Products						1,713.79
A.C.W.A. Equities						<u>3,647.97</u>
						\$ 5,361.76
<u>"Total Gross Surpluses Since Incorporation</u>						<u>\$40,714.01</u>
Allocated as follows:						
Cash Dividends				\$	14,399.91	
Deferred Dividends-General					13,985.92	
Petroleum Products					1,713.79	
A.C.W.A. Equities					3,647.97	
Interest Member Loans and preferred shares					1,052.99	
Depreciation Reserves					2,428.54	
Statutory Reserves					2,719.85	
Educational Reserves					750.00	
Total						<u>\$40,698.97</u>
Unallocated Balance						\$ 15.04.



Analysis Reserves

Period	Depreciation Reserves	Educational Reserves	Statutory Reserves	Total
Dec.31/39	83.68			83.68
Dec.31/40	450.69	100.00		550.69
Dec.31/41	490.70	200.00		690.70
Dec.31/42	630.60	150.00	2,719.85	3,500.45
Dec.31/43	772.87	300.00		1,072.87
Total -	2,428.54	750.00	2,719.85	5,898.39
Less Expended		- 521.41		- 521.41
Net Total	\$2,428.54	\$228.59	\$2,719.85	\$5,376.98

8. Service

"The Association attempts to serve its members with all types of farm supplies and consumer goods. It provides information and service with respect to feeding problems pertaining to poultry and livestock. It provides casualty and fire insurance service to its members. It aids its members. It aids its members by keeping accurate records of each member's purchase of various types of farm supplies. These items are required to be reported on a farmer's income tax return as well as the dividends earned which do not pertain to consumer goods. The association is more than a store. It is a social centre where members meet to discuss their common problems. Through its official organ. Co-Op News, which is subscribed to on behalf of the members, information on a wide range of subjects is supplied to the member on a monthly basis.

9 Summary

"The Edmonton District Farmers' Cooperative Limited, is operated to provide goods and services to its members



at the lowest possible cost and thus contribute to raising the economic level and standard of living of its members. In addition to maintaining regular retail prices the Association has, since it was incorporated in May 1936, allocated in cash and deferred dividends based on the patronage of its members a total of \$33,747.59. All of its surpluses are allocated according to the rules set forth in the standard By-laws of the Cooperative Associations Act.

"To the extent that the cost of farm supplies is reduced, just to that extent is the farmer's net income increased. In our humble opinion we feel that a cooperative enterprise operated on proper cooperative principles and practices is a people's movement designed to effect a fairer distribution of the national income.

"Respectfully submitted -

"Edmonton District Farmers' Cooperative Limited,

J. R. Love,

President and Managing Director."

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(Attached to this Brief are Balance Sheets, December 31, 1943, two sheets, and statement of operations for year ended December 31, 1943)

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BY MR. MILVAIN:

Q. I notice that on page six you refer to purchases made by farmers. You say: "These items are required to be reported on a farmer's income tax return as well as the dividends earned which do not pertain to consumer goods." What do you know about that? A. Our board of directors some time ago had to make a decision whether we would take on the expense of keeping these records in detail or not. It was necessary to know our members' business. The members know that, and ninety-eight per cent of our farmers have come in about the





time of the income tax paying period and they would ask for certain information. One man would say, "How much twine did I buy?" and another would ask, "How much petroleum, how much feed did I buy", and so on. We took their records and helped them make out their own returns, and they wanted to know whether to report the patronage dividend.

Q. Have you anything to do with assisting farmers in preparing income tax returns? A. Yes. It is a detailed job. I have had to report on farmers' income since they first started and I have helped a number of them.

Q. Do you know whether they make a disclosure of the dividends they receive? A. Some of them do.

Q. Do you know that of your own knowledge? A. Yes, Do you mean whether the farmer discloses the dividend in his returns?

Q. Yes. A. We have the records in our office.

Q. But do you know of your own knowledge that the individual farmer, when he files his income tax returns, does in fact disclose to the income tax authorities the amount of dividend he receives back in connection with the purchase of farm supplies? A. I have seen a number of them.

Q. You have seen it on the actual returns? A. Yes.

Q. Have you any comment to make as to what the effect has been on the farmers' tax?

A. It has greatly increased the amount which the farmer as cooperator has paid to the national revenue by enhancing his income.

Q. Without mentioning any names, do you know to what extent any individual's taxes have been raised?

A. I would say that if there were any way of getting at the figures it would be seen that the alleged loss of income



through lack of taxing cooperatives is not the whole story. A great deal of that comes from a large number of small people through patronage dividends and they have been lifted into the income tax paying bracket and are therefore paying back to the government the so-called losses, the revenue which it is claimed should be paid directly by the concern as a group and not by individuals. You ask me if I have evidence. I can mention two instances right here. I have taken two of these income tax returns and given them to a chartered accountant to break them down. Take Exhibit 1 -- I will present this to the Commission. This is a farmer member of a cooperative. His income tax paid in 1943 was \$533.81. Now the chartered accountant took his last patronage dividend and it worked out in this way. He would have paid, without having a dividend, without being a cooperator, the sum of \$255.65. The increased tax he paid through being a cooperator and obtaining patronage dividends, the increase to the national revenues through income tax in this case, was \$278.16 . In other words his ability to contribute to the national revenue through income tax was increased 109 per cent by being the recipient of patronage dividends.

Q. Not only his ability but his liability?

A. Yes.

Q. Here is the second case, which is more that of an average farmer. This man paid in income tax in 1943 the sum of \$166.10. Analysing his statement we find that without his patronage dividend his payment would have been \$56.96. Therefore his payment to the government, by virtue of patronage dividends received, was increased \$109.14; in other words, his ability to pay taxes as a result of receiving a larger





share of the national wealth through cooperative distribution was increased 191 per cent. These are only two examples that I have. These were two friends of mine whom I asked for this information.

THE CHAIRMAN: Have you ever tried to estimate what the total in the organization would amount to?

WITNESS: No, sir. I would not attempt to make such an estimate, but you would have a great number of people paying little sums that otherwise they would not pay because the cooperative movement is a movement on the part of little people who are trying to do big things together.

BY MR. ELLIOTT:

Q. Would you care to state the amounts of the patronage dividends in those two cases?

A. In one case the total patronage dividend received was \$1,097.70 and in the other case \$496.10.

BY MR. PARKER:

Q. No doubt, to your knowledge, there are many farmers who are not in the income tax paying class at all?

A. That is right.

Q. Would you say that even the receipt of patronage dividends does not put them in that class?

A. Yes.

Q. And to whatever extent that is so, the Treasury does suffer. That is right? A. Yes, that is right.

Q. Take these two specific cases that you have mentioned. Can you make any comparison to show the extent to which the Treasury was affected, if the tax had been levied on the sum total of dividends?

A. I could not answer that question. That would require a considerable survey.



Q. You would have to go through the entire statement of the company of which these two individual cases were members?

A. Yes.

Q. In the last paragraph you say: "In our humble opinion we feel that a cooperative enterprise operated on proper cooperative principles and practices is a people's movement designed to effect a fairer distribution of the national income." I take it you are reasonably familiar with the cooperatives in this province? A. Yes.

Q. I think this is a perfectly fair question: Do you know as a matter of fact that there are quite a number of what we have termed so-called cooperatives who are not operating on cooperative principles?

A. I would say there are a number not operating on proper cooperative principles.

Q. That is, on such principles as you would call truly cooperative, and yet they are entitled to the exemption?

A. Yes, there would be some.

Q. Is that prevalent to any extent? It has been suggested to the Commission over and over again that there is a distinction, that whatever the burdens may be that should be imposed on a true cooperative, there are a lot of concerns which are so to speak masquerading, operating under the guise of cooperatives while really they are not so. Is that true?

A. That is probable, and I may enlarge on that. I have been in other provinces and I am prepared to say that through the supervision provided there has been a great improvement in the checking of cooperatives to see that they function more and more in accordance with cooperative principles. I would say that the greatest aid towards this effort is the appointment



of this Commission. I really think this is one of the very best steps taken in Canada in the interests of the cooperative movement.

THE CHAIRMAN: Has there been any control or discipline, in that regard, on the part of the cooperative movement itself?

WITNESS: In Alberta?

THE CHAIRMAN: Yes.

WITNESS: Speaking of our supervisor -- I hate to say very much, because he is sitting here now -- he has been of great assistance in supervising operations to see that co-operators are properly incorporated, that they know the standard by-laws and adhere to them, and so on.

BY MR. PARKER:

Q. Perhaps there is another aspect of the same question, and that is discipline exercised by government officials. Has the cooperative movement, through its national or provincial associations, undertaken to discipline itself and its members? A. I would not use the term discipline; I would say, to advise them.

THE CHAIRMAN: It is obviously to the interest of the cooperative movement that this should be done.

WITNESS: Absolutely.

THE CHAIRMAN: You are the first witness who has said that pseudo-cooperatives should not masquerade under that cloak.

WITNESS: Yes. Our supervisor can bear me out in this, that it is desirable that very definite legislation be enacted which would prevent anyone using the word "cooperative" in his business unless he conforms to the proper principles of the movement.





BY MR. PARKER:

Q. Usually do they conform? A. Yes.

Q. Have you ever heard discussed in the movement anywhere the desirability or the advisability of getting together with a view to framing some sort of uniform cooperative association act that might be adopted by all the provinces so that there would be some substantial measure of uniformity? Has that matter been brought up at all? A. It has been discussed and it will be discussed more and more because we are in the process of developing in this province a branch of the Cooperative Union of Canada. The cooperative would like to see legislation of that type adopted and we are in support of that.

Q. Turn to page five, in the middle of the page, under the heading "Total gross surpluses since incorporation".

I see according to the statement there that deferred dividends are divided into three classes -- general, petroleum products, and A.C.W.A. Equities. Does each member share in these dividends exactly in accordance with the quantity of supplies purchased, or is it a bonus on quantity and quality?

A. The distribution is made on the patronage basis entirely.

Q. Take the purchaser of petroleum products.

Suppose he purchased \$1,000 worth of petroleum products and his neighbour purchased \$1,000 worth of general merchandise. Would they get the same dividend?

A. No. This is a carryover from the early days of incorporation working with the U.F.A. Central Cooperative. We operate the petroleum business as a separate department. The service is delivered to their farm and that is kept separate.

Q. The amount of dividend, either cash or deferred, which the member gets is not based entirely on the number of dollars he happens to have spent at the store? It depends on that



plus the type of goods he buys?

A. Yes.

Q. Which gets the greater dividend, the petroleum purchaser or the general purchaser?

A. The general purchaser obtains the larger dividend and we have control of that. The dividend on petroleum products is set by the U.F.A. Central Cooperative and we are told what it is. We are merely the agent of the U.F.A. Central.

Q. It occurred to me that this perhaps went to the root of the question as to whether this is a true cooperative, one member one vote. Does it affect that question?

A. The amount of dividend that is turned over to us is the amount of dividend we can turn over to our members. We pass it on to them after it is received and that represents merely the commission or dividend available to us, and we distribute it all to the users on a patronage basis.

BY MR. ARNASON:

Q. You pay dividends at varying rates?

A. Only on these two items.

BY MR. PARKER:

Q. On the question of membership, will you look at page four of the brief, where you say: "All patrons are requested to sign an application for membership in the association." In case they do not sign what happens? A. If they do not sign, the sales record from the till goes up as a cash sale. The reason we get the signature is usually this -- and I think the Commission would like to know the mechanics of the thing. A person goes into a store and wants to buy something and the clerk says; "What is your purchasing number?" If he is a stranger he does not know what the clerk means and the clerk perhaps is too busy to stop and explain and so refers that person to the office. He then comes to us to get a purchasing number and we explain about





the set-up. There is an application form and the purchasing number is put on the application, and we have a chance then to "sell" the cooperative idea.

Q. It is an opportunity to canvass the cash customer to become a member. A. Before we adopted it there was a confusion in names. There were so many names that were the same that it confused the clerk. So that having a number keeps the record clear.

Q. Suppose I dropped into your store a perfect stranger. Am I automatically invited into your office, ushered in, and asked to become a member?

A. You would not be automatically ushered in.

Q. I would first be asked, "What is your number?"

A. Yes.

Q. And suppose I said, "What the dickens are you talking about? I want that package of tobacco." What would you do?

A. You would get your package of tobacco.

Q. That system is not set up with the idea of using it to induce people to become members, is it? Or is it purely a matter of office routine to lessen the amount of your work?

A. It forms part of the principles of the Rochdale educational process. It is a good way to establish contact with any new persons.

Q. You make no distinction between their coming to you and your urging them or ushering them to the membership stand, so to speak? Is there not a little difference there?

A. There is no urging about it.

Q. But speaking generally there is a strong urge, is there not, through that type of channel to spread the gospel so as to get people into the movement and have them become members. Is that true, or am I putting it too strongly?



A. The movement as a whole is weak in its educational work. We are not doing very much of it and this is the only machinery we can set up by which new people can get to know what it is all about.

Q. To that extent it is a species of competition, an attempt to gather everyone into the fold, and thereby attract them away from the independent. That is the trend, is it not?

A. We have done no canvassing in that sense. People have come voluntarily, and we feel that it is only right for us to explain the set-up to them so that when they deal at a cooperative they know what they are doing.

Q. You will agree that it would hardly be proper for an independent store to have a separate department and every time a customer came in call that customer aside and give him a lecture on the evils of cooperatives. You would not consider that quite fair? A. No; but on the other hand we only discuss our business with those who come in. We do no advertising.

Q. You are speaking of your own particular company?

A. Yes.

Q. I am speaking generally.

THE CHAIRMAN: What is the purpose of Co-Op News?

WITNESS: The purpose of Co-Op News is to disseminate cooperative information.

THE CHAIRMAN: That is part of your educational programme?

WITNESS: Yes, and it is owned by four groups of cooperatives -- dairy, livestock, poultry and consumer groups.

THE CHAIRMAN: Where do the funds come from to support this paper -- or is it self-supporting?

WITNESS: It is self-supporting, from subscriptions sent in by different coopeatives.



THE CHAIRMAN: It is therefore no burden on your assets?

WITNESS: No, I would not think so.

BY MR. ELLIOTT:

Q. It is sent only to subscribers? A. Yes.

. BY MR. VAUGHAN:

Q. Following up Mr. Parker's question as to enlisting your new customers as members, do I understand that you first make the sale and then direct them to the office or are they directed to the office first?

A. I would not say there is any routine, Mr. Vaughan. In fact, we don't contact them all. A lot of the clerks hesitate to contact people but if they come back a second time, that is the time we make the contact. There is no set rule but I have instructed every clerk to ask for every person's purchasing number and that is a means of ascertaining those who are not members.

Q. Your instructions are such that every person is directed to the office before he buys, or does he buy first?

A. Suppose a stranger came in and was asked for his purchasing number. That leads to a discussion as to what the purchasing number is all about, what it means. Mr. Parker asked what would happen if he came into the store and said that he was only a casual visitor, that he did not want a number, that he just wanted a package of tobacco. Well, he would get what he asked for, but the chances are that he would be curious to know what it was all about, and he might join when he heard about it. He might ask for information and so he would come and get the necessary form.

Q. Have you participating dividends? A. In the consumers' movement it is called deferred patronage dividend.

Q. You referred to the question of taxation so far as the individual is concerned? A. Yes.





Q. Do you report these dividends to the government in any form? A. I am a farmer, by the way, and I never report my participation certificates but I have had a lot of them cashed and those are all reported. But they are not reported until they are cashed.

Q. That is as far as the individual is concerned. But take the cooperative. Does it fill out any form for the government showing what dividends have been declared?

A. The full auditor's report is supplied to the Income Tax Department.

Q. Do you make out a list with the names and the amount paid to each person -- a list of individuals?

A. In our case the inspector has inspected these without taking a record. There are 342 members and it would be quite a list.

Q. In a joint stock company it is necessary to take a record of all dividends paid? A. That is not required in the cooperative but proof that you have done business under 4(p) is required to be furnished by the cooperative.

THE CHAIRMAN: There is no check on the individual as to what he receives from you by way of dividends, so far as the income tax people are concerned?

WITNESS: There is a check made by checking our records, but there is no list supplied.

BY MR. VAUGHAN:

Q. And no statement made either? A. No.

Q. These deferred dividends are not paid at once? Some are paid one or two or three years afterwards?

A. This system has, I think, come into being as a common practice over the past three years and it is hoped we will get on a five-or-six-year basis. As a member of the dairy



pool we are on a six-year basis now and that seems to be quite sufficient for the needs of the cooperative, but we have not yet experimented long enough to know whether it should be four, five or six.

Q. You issue a dividend payable in six years?

A. No. We issue a deferred dividend and the certificate carries no date of redemption. Each year we report to our members in annual meeting and, when the time comes, if they feel it is time to redeem them they will be redeemed in rotation and marked series A, B, C, D and so on.

Q. Are they redeemed by cheque?

A. They are redeemed on presentation at the store.

Q. Cash is paid for them? A. Yes.

Q. At what time does the individual report that -- at the time he receives the deferred dividend or when the cash is paid? A. Are you referring to the common practice or are you speaking of our set-up particularly?

Q. I suppose it is more or less general.

A. As a member of the dairy pool I get a certificate paid by cheque and mailed to me, but the stores would no doubt send out a notice requiring people to bring in the deferred dividends to have them cashed.

Q. Does the individual report that deferred dividend at the time he receives it or at the time it is cashed?

A. At the time it is cashed. I assume they are all cashed during the year in which they are received. I do not suppose many farmers would hold them over, so they would be reported the year they are received.

Q. Do you happen to know the practice in connection with participation certificates? Are they reported at the time they are received or at the time of the due date appearing on them? A: I receive these every year as a dairy producer





and the dividend I receive at the beginning of this year is for six years ago, 1939. That is reported in my income this year. The one I received last year was reported last year.

Q. When do you report it? A. When it is cashed, not when it is issued as a promise to pay in the future.

Q. Suppose you receive a dividend this year payable in six years' time; that will not be reported until it is cashed? A. Not until it is cashed.

THE CHAIRMAN: It would be too optimistic to expect that it would be reported immediately?

WITNESS: I am afraid it would.

BY MR. VAUGHAN:

Q. Regarding the item on the balance sheet having to do with the wholesale, there are certain reserves?

A. On the asset sheet?

Q. Yes. How is that amount determined? A. Which item?

Q. I am referring to the item on the second last page.

A. That has nothing to do with any other organization. We started mixing feeds in 1938 and carried on the mixing of supplemental feeds for the wholesale and its members. We sell to no one but members and we fix a nominal price at the time the feed is delivered. At the end of the year there is a commission to cover certain items. That is the commission that was due for the year's business, which was purely an estimate.

Q. You buy most supplies from the wholesale? A. Yes.

Q. And the wholesale treats you as a cooperative and pays you whatever your share is? A. Are you speaking of a particular wholesale?

Q. No. You buy through a cooperative wholesale?

A. We buy from a great number of wholesales. We do buy from



the Alberta Cooperative Wholesale.

Q. How is any surplus treated in relation to the cooperative wholesale? A. In the cooperative wholesale, whatever the surplus may be which is obtained at the end of the year, it is allocated to the members on the basis of their patronage during the year.

Q. You have quoted two examples of returns made by individuals, showing the amount of tax that had been paid. Do many of the members come in to you to get advice in making out their returns? A. Yes, they do.

Q. Fifty per cent of them or twenty-five, or how many? A. Oh, no, not that many.

Q. What percentage of them? A. Not that large a percentage.

THE CHAIRMAN: If they did, you would not have time for anything else?

WITNESS: No. I would say, not more than twenty-five all told have asked for information to help them in connection with their income tax.

BY MR. ELLIOTT:

Q. Among the liabilities there is an item, loans from members. Would you describe to us just how those loans are secured or obtained from members.

A. By decision at the annual meeting, and then by letter we took over the building, which is a large one. We asked for members' loans and the member received a receipt. There is a loan book kept in the office where his account is kept, but to protect the member we first take the balance sheet to the bank and arrange for a substantial overdraft which we have not used. We do that in case the member should require the money loaded to us all at once. So that he is adequately protected for the present. He makes a loan and it is callable



at his discretion.

Q. You have to pay it on demand? A. Yes.

Q. It is simply an invitation to the members? A. Yes, an invitation.

Q. Is there any limit to the amount one member may subscribe? A. There has been no limit and there is no reason to set a limit yet because we are not borrowing more than we can use to advantage.

Q. It varies from year to year? A. Yes.

Q. Have your members come forward pretty well?

A. Well, anyone who would like to start up a cooperative will find that the financing is a big worry. We are just about through that period, but it has been most difficult in the early stages to obtain adequate financing to take care of expansion as it occurs.

THE CHAIRMAN: Is your interest rate four per cent on that loan?

WITNESS: It was set at four per cent and has never been changed since then.

BY MR. ARNASON:

Q. You are president of the Alberta Cooperative Wholesale?

A. Yes.

Q. The wholesale has among its affiliates a number of cooperative associations? A. Yes.

Q. In view of your position as president of the Alberta Cooperative Wholesale Association you happen to know about the method of financing used by these cooperative associations which have purchased retail stores in recent years. What I am driving at is this: Do these associations, whenever they desire to purchase a retail store, ask their members to put up additional capital to provide the necessary financing for the purchase, in the form of loan capital or additional share



1. *Chrysomelids* (see page 100)

capital, or by the sale of preferred stock? In other words, what is the practice? A. In the past two or three years that has been the common practice. In the purchase of stores, naturally, a cooperative can only buy now -- and it has been so for the last two or three years -- by somebody wishing to to sell. Maybe they propose that the former patrons form a cooperative, and meetings are held and valuations set and the objective stated -- what capital is required and so on. That is all ascertained and then a campaign is put on and the money raised, as you outline, by selling shares.

BY MR. NADEAU:

Q. Is there any limit to the number of shares a member may hold? A. We have no limit because there is no interest paid, and I might say for the information of the Commission as regards preferred shares, we only ask each member to take one.

Q. Can you supply us with the text of your application form for membership?

A. I shall be glad to do that. I will get some examples and submit them.

Q. I understand that you secure insurance, casualty or fire, for your members? A. Yes, but we are purely an agent.

Q. Are you agent for mutual companies or joint stock companies? A. One of each.

Q. How are the premiums paid -- is it the members themselves who pay the premium? A. Oh yes, we carry on purely as the agent of these companies.

BY MR. PARKER:

Q. In addition to being president of the Alberta Wholesale, are you connected with any other cooperative in Alberta, apart from this one you have been speaking of?

A. I am not an official of any.



Q. Are you a member of others? A: I happen to be the editor of this much discussed Co-Op News, which is the organ of the cooperative association.

Q. Are you a member of any other cooperatives?

A. Yes; I am a member of about six.

Q. Are you a member of the Edmonton Board of Trade?

A. No, I am not.

MR. PARKER: We have a small brief sent in by the Edmonton Automotive Association, Northern Alberta section. I understand it was sent to the Registrar without any information as to whether it would be supported.

THE REGISTRAR: There was a letter, and I got in touch with the sponsor yesterday and informed him that if he wished to appear he should be here this morning.

MR. PARKER: It is almost a duplicate of the one we heard in Vancouver. It looks to me as if it was run off on the same mimeo. I do not think the persons interested would be prejudiced by not being here to read it. That, Mr. Chairman, concludes all the matters of which we have notice.

THE CHAIRMAN: I congratulate Counsel on getting through so soon.

The Commission thereupon adjourned at 1.30 p.m. to meet in Regina on Monday, January 29, 1945.

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